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JOHN F. PEISERICH
JOHN@PPGMRLAW.COM

July 11, 2014

Idaho Oil and Gas Conservation Commission
Attn: Mr. Bobby Johnson
Idaho Department of Lands
300 N. 6th Street, Suite 103
Boise, ID 83702

RE: Application of Alta Mesa Services, LP for integration of all unleased mineral interests and for authority to produce the proposed well and to share the costs of such well and the hydrocarbons produced therefrom between the working interest owners and royalty owners in the unit described as East Half of Section 33 and the West Half of Section 34, both in Township 9 North, Range 4 West, Boise Meridian, Payette County, Idaho; Proposed Kauffman #1-34

Commissioners:

Alta Mesa Services, LP, 15021 Katy Freeway, Suite 400, Houston, TX 77094 ("Applicant"), hereby applies to the Idaho Oil and Gas Conservation Commission ("IOGCC") for integration of all unleased mineral interests and for authority to produce the proposed well and to share the costs of such well and the hydrocarbons produced therefrom between the working interest owners and royalty owners in the proposed unit, as more particularly described below.

Proposed Unit Background

1. The proposed unit contains 640 acres, more or less, and is comprised of the East Half of Section 33 and the West Half of Section 34 both in Township 9 North, Range 4 West. The IOGCC administratively approved an exceptional well location for the proposed well on June 30, 2014 based upon geologic evidence provided by the Applicant. That information is the basis for this request as well. The geological data available to Applicant indicates that there is a reasonable possibility that an oil and gas well drilled in the proposed unit would recover oil and/or gas in commercial quantities and, therefore, it is prospective of oil or gas.

2. The Applicant proposes to drill a vertical well targeting the Willow Sand and any intervening formations. The bottom hole location is planned in the Northwest Quarter of Section 34, Township 9 North, Range 4 West. The proposed well will be drilled to a total measured depth of approximately 5,800 feet.

3. Applicant owns oil and gas leases covering a majority of the proposed unit, or has obtained agreements with other working interest owners with whom they collectively own oil and gas leases covering a majority of the proposed unit. Applicant should be named as operator of the well. The list of parties to be integrated is attached hereto as Exhibit A.

4. Applicant states that it is in the best interest of conservation and the protection of correlative rights of all interested parties that the proposed unit be developed for oil and gas production without undue delay.

5. Applicant, or another working interest owner, owns an oil and gas lease covering the proposed drill site.

II. Integration of Unleased Mineral Owners

6. Applicant states that it has made repeated efforts to identify, locate and negotiate leases with the unleased mineral interest owners; that those owners have been offered an opportunity to participate in the proposed well; that they have been offered a fair and reasonable bonus consideration for the execution of an oil and gas lease covering their interests; that Applicant has furnished, or offered to furnish, a proposed oil and gas lease and a copy of the AAPL operating agreement form which Applicant proposes to use in connection with the drilling of said well; but that all of the efforts of the Applicant have produced no agreement between Applicant and the unleased mineral owners listed on Exhibit A.

7. Applicant requests that the Idaho Oil and Gas Conservation Commission set this matter for public hearing and, after same, issue its order that the East Half of Section 33 and West Half of Section 34, Township 9 North, Range 4 West, Payette County, be integrated and, in the alternative, that:

- (a) The owners of the unleased mineral interests identified in this Application shall execute and deliver to Applicant a one-year oil and gas lease, on Applicant's proposed lease form, for fair and reasonable compensation, in the alternative, a bonus of \$50.00 per acre and 1/8th royalty, in lieu of the right to participate in the working interest in said unit;
- (b) The owners of the unleased mineral interests identified

in this Application shall be pooled and integrated into the captioned unit with assessment of a reasonable risk factor penalty against their interest; or

- (c) The owners of the unleased mineral interests identified in this Application shall participate in the cost of drilling, testing and completion of the test well to be drilled by Applicant on the captioned unit, subject to the terms of the uniform modified AAPL Operating Agreement and attachments adopted by the Commission, and authorization for expenditures proposed by Applicant.

8. The unleased mineral owners identified in this Application should be required to elect within fifteen (15) days after issuance of the Commission's order which method will be pursued in the development of the proposed unit, with respect to their interest, and, in the event no election is made, those unleased mineral owners shall be deemed to have elected to accept a bonus of \$50.00 per net mineral acre as compensation in lieu of the right to participate in the working interest in said unit, and with the royalty to be 1/8th.

9. Due to the risks and costs inherent in the drilling of the proposed well, the Commission should fix a reasonable risk factor to be assessed as a penalty against the integrated interests within the unit. The risk factor should be applied to the proportionate cost and expenses of drilling, completing and equipping the well, which would have been borne by the interest of said parties had they participated. Applicant proposes a risk factor of 300% for the initial well and 300% for any subsequent wells.

III. Cross-Section Well

10. Applicant is the proposed operator (upon approval of this application) and 87.5% leasehold working interest owner in the East Half of Section 33 and 75% leasehold working interest owner in the West Half of Section 34, both in Township 9 North, Range 4 West. All interested Parties who own the right to drill in either Half section are identified in Exhibit A, attached. The Applicant proposes to drill a vertical well targeting the Willow Sand and any intervening formations. As described above, the location is planned in the Northwest Quarter of Section 34, Township 9 North, Range 4 West. The proposed well will be drilled to a total measured depth of approximately 5,800 feet.

11. The Applicant proposes an allocation of cost, expense, and production including payment of royalties between Sections 33 and 34 of 50% each. Applicant proposes to make this allocation of cost for the proposed well between Sections 33 and 34 based upon the geologic conditions, to protect correlative rights, and in the interest of fairness.

IV. Geologic Report

CONFIDENTIAL SUBJECT TO TRADE SECRET PROTECTIONS

[REDACTED]

[REDACTED]

[REDACTED]

General and Procedural Matters

14. Applicant requests that the resulting Order of the Commission be made applicable to any unknown spouse, heir, devisee, personal representative, successor or assign of all parties subject to the Order.

15. Notice has been or will be given to the interested parties identified in this Application in accordance with the rules of the Idaho Oil & Gas Conservation Commission. Proof of publication of the Notice and an Affidavit of Notice will be submitted at the hearing.

16. Below is a list of Exhibits that are attached to this Application, which Applicant requests be made a part of the record of this proceeding:

- A. List of Parties to be Integrated
- B. Resume of Efforts to Secure Leases and/or Participation
- C. Applicant's Joint Operating Agreement
- D. Authorization for Expenditures (AFE) for Proposed Well
- E. Proposed Unit Map
- F. Proof of Publication (to be submitted at hearing)
- G. Affidavit of Notice to Interested Parties (executed copy to be submitted at hearing)

Respectfully Submitted,
PPGMR LAW, PLLC

A handwritten signature in dark ink, appearing to read 'JLR', with a stylized flourish at the end.

John F. Peiserich

Exhibit A

List of Parties to be Integrated

Amy D. and Lemuel A. Walker, their heirs, successors and assigns

Exhibit B

Resume of Efforts

Interested Party – Amy D. Walker

Statement of Contract Landman Glenn R. Johnston at the request of David Pepper, Idaho Land Supervisor – Alta Mesa

You asked that I attempt to locate the current owners of a mineral interest in Section 34 of T9N R3W, Payette County, Idaho, at one time owned by Amy D. Walker and report back to you with my findings. This is my report.

I obtained the Runsheet for this Section and reviewed documents listed therein pertaining to the Walker interest. Lemuel A. Walker and his wife, Amy D. Walker, owned surface and mineral interests in this section, obtaining those interest through several separate conveyances into them over time. By Warranty Deed dated 3/11/1941, Amy D. Walker and her husband, Lemuel A. Walker conveyed all of their interest in this Section to Cora E. Nelson, retaining one-half of all oil, gas and other minerals.

No documents were found of record whereby the Walkers ever conveyed any of this retained mineral interest. The only further document pertaining to this interest is Instrument No. 93592 in the Probate Records of Payette County, Idaho, which states Lemuel A. Walker died intestate in 1956 and his wife, Amy Walker, was designated as the only legatee with no other issue.

I conducted a thorough search of the records of the Clerk and Records Office and of the Probate records in the Clerk of the Court's Office and found no conveyances of this interest or any portion of it from Amy D. Walker. I was unable to locate any Probate information on Amy D. Walker in Payette County. I discovered that Amy and Lemeul Walker had at one time lived in Cairo, Malheur County, Oregon, and that Lemuel Walker had died in Ontario, Malheur County, Oregon, so I also checked the Probate records of the Malheur County Clerk to see if perhaps Amy had also died in that County; no records for Amy Walker were found there either.

I searched the database on the website [Ancestry.com](https://www.ancestry.com) for any information regarding Amy D. Walker of Payette County, Idaho. I discovered she had died in August of 1971 at the age of 91 in Payette, Idaho by searching the Social Security Death Index. Despite a diligent search of the records of Ancestry (and I have a "Premuim" membership there), I was unable to locate any record of this Amy D. Walker ever having had children. This matched the information in the 1956 Probate record of her husband, which stated there were no children of

that marriage. I was unable to determine from my search at this website if Amy D. Walker had brothers or sisters.

I went back to the Payette Clerk and Records office and closely reviewed the alphabetical Grantor records forward from August, 1971, but I found no documents of any kind conveying any interest of Amy D. Walker, in this tract or any other lands in Payette County. I again reviewed the Probate Index forward from August 1971 but found no Probate record for Amy D. Walker.

I have mailed a Certified letter, return receipt requested, to the last known address of Amy D. Walker in Payette County, Idaho. It is addressed to "The Heirs of Amy D. Walker," and asks the recipient to please contact me regarding a mineral interest at one time owned by her.

See Also, Affidavit of Michael O. Roe In Support of Motion for Service by Publication (Attached)

FILED	
THIRD JUDICIAL DISTRICT COURT	
Payette County, Idaho	
MAY 11 2011	
A.M. P.M.	
BETTY J. DRESSEN	
By <u>Ch</u>	Deputy

Michael O. Roe, ISB No. 4490
Mindy M. Willman, ISB No. 7983
MOFFATT, THOMAS, BARRETT, ROCK &
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mmw@moffatt.com
24816.0000

Attorneys for Plaintiffs

IN THE DISTRICT COURT OF THE THIRD JUDICIAL DISTRICT
OF THE STATE OF IDAHO, IN AND FOR THE COUNTY OF PAYETTE

RANDALL C. KAUFFMAN and THANA M.
KAUFFMAN, husband and wife,

Plaintiffs,

vs.

J. L. ANKENY; F. H. THURMER; AMY D.
WALKER and L. A. WALKER, wife and
husband; W. J. MATTHEWS and LULA E.
MATTHEWS aka Lula Matthews, husband
and wife; WILLIAM G. REED and LILLIE E.
REED, husband and wife, heirs of Lula E.
Matthews; MOUNIE OLSON and BLANCHE
OLSON, husband and wife; EDGAR L.
DAVIS and NELLIE M. DAVIS, husband and
wife; H. E. OWENS and PEARL E. OWENS,
husband and wife; R. D. MAULE and
MARY W. MAULE, husband and wife;
N. D. MAULE and PAULINE MAULE,
husband and wife; W. A. MAULE and
ERMA L. MAULE, husband and wife; RUTH
MURPHY, a widow; MARGARET PAYNE, a
single person; LEROY E. MAULE and

Case No. CV-2011-326

**AFFIDAVIT OF MICHAEL O. ROE IN
SUPPORT OF MOTION FOR SERVICE
BY PUBLICATION**

**AFFIDAVIT OF MICHAEL O. ROE IN SUPPORT OF MOTION FOR
SERVICE BY PUBLICATION - 1**

Client:2042425.1

DORTHEA MAULE, husband and wife;
FANNIE BARTON and DELBERT
BARTON, wife and husband; and DOES 1
through 10, inclusive; together with each of
their respective heirs, devisees, assigns and
successors in interest, and all other persons or
entities unknown claiming any right, title or
interest in the real property described herein,

Defendants.

STATE OF IDAHO)
) ss.
COUNTY OF ADA)

Michael O. Roe, being duly sworn upon oath, deposes and says:

1. I am the attorney of record for plaintiffs in this action and make this affidavit based upon personal knowledge.

2. Defendants who may claim an interest in the property named in this case and their current addresses, i.e., J. L. Ankeny; F. H. Thurmer; Amy D. Walker and L. A. Walker, wife and husband; W. J. Matthews and Lula E. Matthews aka Lula Matthews, husband and wife; William G. Reed and Lillie E. Reed, husband and wife, heirs of Lula E. Matthews; Mounie Olson and Blanche Olson, husband and wife; Edgar L. Davis and Nellie M. Davis, husband and wife; H. E. Owens and Pearl E. Owens, husband and wife; R. D. Maule and Mary W. Maule, husband and wife; N. D. Maule and Pauline Maule, husband and wife; W. A. Maule and Erma L. Maule, husband and wife; Ruth Murphy, a widow; Margaret Payne, a single person; Leroy E. Maule and Dortha Maule, husband and wife; Fannie Barton and Delbert Barton, wife and husband, are unknown to plaintiffs. After due diligence, plaintiffs have been unable to ascertain said addresses or otherwise locate such defendants.

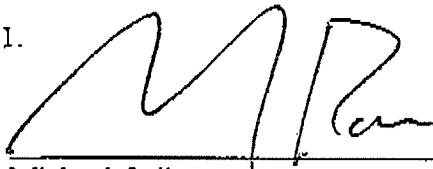
3. Subsequent to an exhaustive search of the public records, including without limitation a thorough search of available online sources, it has proven impossible to ascertain the potential parties that may claim an interest in the property that is the subject of this dispute, and therefore impossible to obtain personal service on the aforementioned defendants within the state of Idaho.

4. The instant action is properly pending, and plaintiffs have good cause of action against the aforementioned defendants, as more fully appears from plaintiffs' Verified Complaint to Quiet Title on file with this Court.

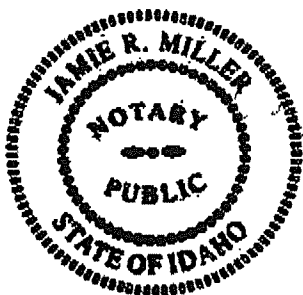
5. The aforementioned defendants are necessary and proper parties to this action, and this affidavit is made for the purpose of obtaining an order for service of summons by publication.


6. Accordingly, plaintiffs have moved for an Order directing that service of summons be made on defendants by publication once a week for four (4) consecutive weeks in the *Independent Enterprise*, a newspaper of general circulation in Payette County, Idaho, and the publication most likely to give notice to defendants.

DATED this 10 day of May, 2011.


Michael O. Roe

SUBSCRIBED AND SWORN to before me this 10th day of May, 2011.




Notary Public for Idaho
Residing at Boise, ID
My Commission Expires 5-23-12

THIRD JUDICIAL DISTRICT COURT
Payette County, Idaho

Affidavit of Publication

JUN 16 2011

A.M.

BETTY J. DRESSEN

STATE OF IDAHO,

COUNTY OF PAYETTE

ss.

By

Depy

Summons
TITLE OF PUBLICATION

SPONSOR OF PLAINTIFF

Mozzatt Thomas
PLAINTIFF OR LEGAL AGENT

being
duly sworn, deposes and says
That he is the clerk of

THE INDEPENDENT-ENTERPRISE, a weekly newspaper published at Payette, in the County of Payette and State of Idaho; that said paper has been and is in general circulation in the county aforesaid, and in the vicinity of Payette; that the advertisement, a copy of which is attached hereto, was published in said newspaper once a week for four (4) consecutive weeks in the regular and entire issue of said paper during the period and time of publication, and was published in the newspaper proper and not a supplement; that said paper has been established and regularly published for more than seventy-eight consecutive weeks prior to the date of first publication of said advertisement.

Such notice was published in the issue beginning with May 18, 2001, and ending with the issue of June 8, 2001.

STATE OF IDAHO

COUNTY OF Payette

On this 9th day of June, in the year of 2011, before me, a Notary Public, personally appeared Garrey Hurdle known or identified to me to be the person whose name subscribed to the within instrument, and being by me first duly sworn, declared that the statements therein are true, and acknowledged to me that he executed the same.

Notary Public for Idaho

Residing at PayetteMy commission expires: 7-1-14

STATEMENT

Independent-Enterprise

PAYETTE, IDAHO

Number of Lines 106Number of Insertions four (4)106 Lines @ 1.14 ... \$ 120.84106 Lines @ 3.00 ... \$ 318.00TOTAL COST
WILL BE \$ 438.84

Michael O. Roe, ISB No. 4490

Mindy M. Willman, ISB No. 7983

MOFFATT, THOMAS, BARRETT, ROCK & FIELDS, CHARTERED

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Attorneys for Plaintiffs

IN THE DISTRICT COURT OF THE THIRD JUDICIAL DISTRICT

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RANDALL C. KAUFFMAN and THANA M. KAUFFMAN, husband and wife,

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vs.

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Defendants.

Case No.

SUMMONS

TO: J. L. ANKENY, F. H. THURMER, AMY D. WALKER and L. A. WALKER, wife and husband, W. J. MATTHEWS and LULA E. MATTHEWS aka Lula Matthews, husband and wife, WILLIAM C. REED and LILLIE E.

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INDEPENDENT ENTERPRISE - PAYETTE, IDAHO

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 Mindy M. Willman, ISB No. 7983
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Attorneys for Plaintiff
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 Plaintiffs.

vs.

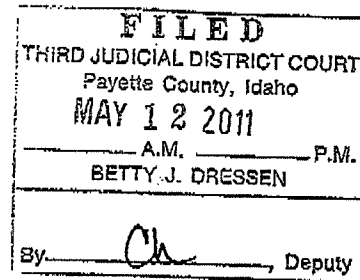
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 MARY W. MAULE, husband and wife;
 N. D. MAULE and PAULINE MAULE, hus-
 band and wife; W. A. MAULE and ERMA L.
 MAULE, husband and wife; RUTH MURPHY,
 a widow; MARGARET PAYNE, a single per-
 son; LEROY E. MAULE and DORTHEA
 MAULE, husband and wife; FANNIE BAR-
 TON and DELBERT BARTON, wife and hus-
 band; and DOES 1 through 10, inclusive;
 together with each of their respective heirs,
 devisees, assigns and successors in interest,
 and all other persons or entities unknown
 claiming any right, title or interest in the real
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 Defendants.

Case No.

SUMMONS

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 husband and wife; R. D. MAULE and MARY
 W. MAULE, husband and wife; N. D. MAULE
 and PAULINE MAULE, husband and wife;
 W. A. MAULE and ERMA L. MAULE, hus-
 band and wife; RUTH MURPHY, a widow;
 MARGARET PAYNE, a single person; LEROY
 E. MAULE and DORTHEA MAULE, husband
 and wife; FANNIE BARTON and DELBERT
 BARTON, wife and husband; and DOES 1
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 of their respective heirs, devisees, assigns
 and successors in interest, and all other persons
 or entities unknown claiming any right, title
 or interest in the real property described
 herein. YOU ARE HEREBY NOTIFIED that
 in order to defend this lawsuit, an appropri-
 ate written response must be filed with the
 above-designated court within twenty (20)
 days after service of this Summons on you.
 If you fail to so respond, the Court may enter
 judgment against you as demanded by the
 plaintiff in the Verified Complaint. A copy
 of the Verified Complaint is served with this
 Summons. If you wish to seek the advice of
 or representation by an attorney in this mat-
 ter, you should do so promptly so that your
 written response, if any, may be filed in time,
 and other legal rights protected. An appro-
 priate written response requires compliance
 with Rule 10(a)(1) and other Idaho Rules of
 Civil Procedure, and shall also include: The
 title and number of this case. If your re-
 sponse is an Answer to the Verified Com-
 plaint, it must contain admissions or denials
 of the separate allegations of the Verified
 Complaint and other defenses you may
 claim. Your signature, mailing address, and
 telephone number, or the signature, mailing
 address, and telephone number of your at-
 torney. Proof of mailing or delivery of a copy
 of your response to plaintiff's attorney, as
 designated above. To determine whether you
 must pay a filing fee with your response,
 contact the clerk of the above-named court.
 DATED this ____ day of March, 2011.
 CLERK OF THE COURT
 By Deputy Clerk

DATED this ____



IN THE DISTRICT COURT OF THE THIRD JUDICIAL DISTRICT
OF THE STATE OF IDAHO, IN AND FOR THE COUNTY OF PAYETTE

RANDALL C. KAUFFMAN and THANA M.
KAUFFMAN, husband and wife,

Plaintiffs,

vs.

J. L. ANKENY; F. H. THURMER; AMY D.
WALKER and L. A. WALKER, wife and
husband; W. J. MATTHEWS and LULA E.
MATTHEWS aka Lula Matthews, husband
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REED, husband and wife, heirs of Lula E.
Matthews; MOUNIE OLSON and BLANCHE
OLSON, husband and wife; EDGAR L.
DAVIS and NELLIE M. DAVIS, husband and
wife; H. E. OWENS and PEARL E. OWENS,
husband and wife; R. D. MAULE and
MARY W. MAULE, husband and wife;
N. D. MAULE and PAULINE MAULE,
husband and wife; W. A. MAULE and
ERMA L. MAULE, husband and wife; RUTH
MURPHY, a widow; MARGARET PAYNE, a
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DORTHEA MAULE, husband and wife;
FANNIE BARTON and DELBERT
BARTON, wife and husband; and DOES 1
through 10, inclusive; together with each of
their respective heirs, devisees, assigns and
successors in interest, and all other persons or
entities unknown claiming any right, title or
interest in the real property described herein,

Defendants.

Case No. CV-2011-326

**ORDER FOR SERVICE BY
PUBLICATION**

WHEREAS, it appears from the Affidavit of Michael O. Roe and from the files of this action to the satisfaction of this Clerk of this Court that the aforementioned defendants, after due diligence, cannot be found within the state of Idaho because their present addresses are unknown; and

WHEREAS, it further appears from the Verified Complaint to Quiet Title that a cause of action exists against defendants, and that said defendants are proper and necessary parties to this action;

NOW, THEREFORE, it is, on the motion of plaintiffs, ordered and directed that service upon defendants be made by publication of a Summons in the *Independent Enterprise*, a newspaper of general circulation in Payette County, Idaho, and the publication most likely to give notice to defendants, once a week for a period of four (4) consecutive weeks.

DATED this 11th day of May, 2011.



Susan E. Wiebe
District Judge

Exhibit C

Applicant's Joint Operating Agreement

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

_____, _____, the Effective Date
year

OPERATOR AM IDAHO, LLC

CONTRACT AREA _____

COUNTY OR PARISH OF PAYETTE, GEM, CANYON, STATE OF _____
and WASHINGTON, IDAHO; and
MALHEUR, OREGON

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between AMIDMO, LLC
hereinafter designated and referred to as "Operator," and the signatory party or parties other than Operator, sometimes hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

WITNESSETH:

WHEREAS, the parties to this agreement are owners of Oil and Gas Leases and/or Oil and Gas Interests in the land identified in Exhibit "A," and the parties hereto have reached an agreement to explore and develop these Leases and/or Oil and Gas Interests for the production of Oil and Gas to the extent and as hereinafter provided,

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.

DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "AFE" shall mean an Authority for Expenditure prepared by a party to this agreement for the purpose of estimating the costs to be incurred in conducting an operation hereunder.

B. The term "Completion" or "Complete" shall mean a single operation intended to complete a well ^{capable of producing} ~~as a producer of Oil~~ and Gas in one or more Zones, including, but not limited to, the setting of production casing, perforating, well stimulation and production testing conducted in such operation. ~~For horizontal wellbores, the term "Completion" shall also mean multi-stage horizontal fracturing operations.~~

C. The term "Contract Area" shall mean all of the lands, Oil and Gas Leases and/or Oil and Gas Interests intended to be developed and operated for Oil and Gas purposes under this agreement. Such lands, Oil and Gas Leases and Oil and Gas Interests are described in Exhibit "A."

D. The term "Deepen" shall mean a single operation whereby a well is drilled to an objective Zone below the deepest Zone in which the well was previously drilled, or below the Deepest Zone proposed in the associated AFE, ~~whichever is the~~ ^{For horizontal wellbores, the term "Deepen" shall also mean an operation whereby a well is drilled to an objective measured depth greater than the measured depth in the previously drilled well or proposed AFE.}

E. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

F. The term "Drilling Unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a Drilling Unit is not fixed by any such rule or order, a Drilling Unit shall be the drilling unit as established by the pattern of drilling in the Contract Area unless fixed by express agreement of the Drilling Parties.

G. The term "Drillsite" shall mean the Oil and Gas Lease or Oil and Gas Interest on which a proposed well is to be located.

H. The term "Initial Well" shall mean the well required to be drilled by the parties hereto as provided in Article VI.A.

I. The term "Non-Consent Well" shall mean a well in which less than all parties have conducted an operation as provided in Article VI.B.2.

J. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

K. The term "Oil and Gas" shall mean oil, gas, casinghead gas, gas condensate, and/or all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

L. The term "Oil and Gas Interests" or "Interests" shall mean unleased fee and mineral interests in Oil and Gas in tracts of land lying within the Contract Area which are owned by parties to this agreement.

M. The terms "Oil and Gas Lease," "Lease" and "Leasehold" shall mean the oil and gas leases, oil and gas lease options, ~~farmouts, seismic options, seismic permits, fee mineral interests or other interests in oil, gas and other minerals, provided however, the term shall not include Oil and Gas Interests as defined above and gas leases or interests therein~~ covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

N. The term "Plug Back" shall mean a single operation whereby a deeper Zone is abandoned in order to attempt a Completion in a shallower Zone.

O. The term "Recompletion" or "Recomplete" shall mean an operation whereby a Completion in one Zone is abandoned in order to attempt a Completion in a different Zone within the existing wellbore.

P. The term "Rework" shall mean an operation conducted in the wellbore of a well after it is Completed to secure, restore, or improve production in a Zone which is currently open to production in the wellbore. Such operations include, but are not limited to, well stimulation operations but exclude any routine repair or maintenance work or drilling, Sidetracking, Deepening, Completing, Recompleting, or Plugging Back of a well.

Q. The term "Sidetrack" shall mean the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or drill around junk in the hole to overcome other mechanical difficulties; ~~and for horizontal wellbores, an operation by which a lateral wellbore is drilled off of the horizontal wellbore.~~

R. The term "Zone" shall mean a stratum of earth containing or thought to contain a common accumulation of Oil and Gas separately producible from any other common accumulation of Oil and Gas.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the word "person" includes natural and artificial persons, the plural includes the singular, and any gender includes the masculine, feminine, and neuter.

ARTICLE II.

EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

☒ A. Exhibit "A," shall include the following information:

- (1) Description of lands subject to this agreement,
- (2) Restrictions, if any, as to depths, formations, or substances,
- (3) Parties to agreement with addresses and telephone numbers for notice purposes,
- (4) Percentages or fractional interests of parties to this agreement,
- (5) Oil and Gas Leases and/or Oil and Gas Interests subject to this agreement,
- (6) Burdens on production.

☒ B. Exhibit "B," ~~Form of Fee~~ Reporting Requirements

☒ C. Exhibit "C," Accounting Procedure.

☒ D. Exhibit "D," Insurance.

☒ E. Exhibit "E," Gas Balancing Agreement.

☒ F. Exhibit "F," Non-Discrimination and Certification of Non-Segregated Facilities.

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1 G. Exhibit "G," Tax Partnership Memorandum of Operating Agreement and Financing Statement.
2 H. Other: _____
3 _____
4 _____

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If any provision of any exhibit, except Exhibits "E," and "F" and "G," is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

ARTICLE III.

INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an Oil and Gas Interest in the Contract Area, that Interest shall be treated for all purposes of this agreement and during the term hereof as if it were covered by ^{a mutually acceptable} the form of Oil and Gas Lease attached hereto as Exhibit "B," and the owner thereof shall be deemed to own both royalty interest in such lease and the interest of the lessee thereunder.

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A." In the same manner, the parties shall also own all production of Oil and Gas from the Contract Area subject, however, to the payment of royalties and other burdens on production as described hereafter.

Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other burdens may be payable and except as otherwise expressly provided in this agreement, each party shall pay or deliver, or cause to be paid or delivered, all burdens on its share of the production from the Contract Area up to, but not in excess of, ~~burdens on production as set out in Exhibit "A"~~ and shall indemnify, defend and hold the other parties free from any liability therefor. Except as otherwise expressly provided in this agreement, if any party has contributed hereto any Lease or Interest which is burdened with any royalty, overriding royalty, production payment or other burden on production in excess of the amounts stipulated above, such party so burdened shall assume and alone bear all such excess obligations and shall indemnify, defend and hold the other parties hereto harmless from any and all claims attributable to such excess burden. However, so long as the Drilling Unit for the productive Zone(s) is identical with the Contract Area, each party shall pay or deliver, or cause to be paid or delivered, all burdens on production from the Contract Area due under the terms of the Oil and Gas Lease(s) which such party has contributed to this agreement, and shall indemnify, defend and hold the other parties free from any liability therefor.

No party shall ever be responsible, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected Lease shall bear the additional royalty burden attributable to such higher price.

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby, and in the event two or more parties contribute to this agreement jointly owned Leases, the parties' undivided interests in said Leaseholds shall be deemed separate leasehold interests for the purposes of this agreement.

C. Subsequently Created Interests:

If any party has contributed hereto a Lease or Interest that is burdened with an assignment of production given as security for the payment of money, or if, after the date of this agreement, any party creates an overriding royalty, production payment, net profits interest, assignment of production or other burden payable out of production attributable to its working interest hereunder, such burden shall be deemed a "Subsequently Created Interest." Further, if any party has contributed hereto a Lease or Interest burdened with an overriding royalty, production payment, net profits interests, or other burden payable out of production created prior to the date of this agreement, and such burden is not shown on Exhibit "A," such burden also shall be deemed a Subsequently Created Interest to the extent such burden causes the burdens on such party's Lease or Interest to exceed the amount stipulated in Article III.B. above.

The party whose interest is burdened with the Subsequently Created Interest (the "Burdened Party") shall assume and alone bear, pay and discharge the Subsequently Created Interest and shall indemnify, defend and hold harmless the other parties from and against any liability therefor. Further, if the Burdened Party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the Subsequently Created Interest in the same manner as they are enforceable against the working interest of the Burdened Party. If the Burdened Party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said Subsequently Created Interest, and the Burdened Party shall indemnify, defend and hold harmless said other party, or parties, from any and all claims and demands for payment asserted by owners of the Subsequently Created Interest.

ARTICLE IV.

TITLES

A. Title Examination:

Title examination shall be made on the Drillsite of any proposed well prior to commencement of drilling operations and, if a majority in interest of the Drilling Parties so request or Operator so elects, title examination shall be made on the entire Drilling Unit, or maximum anticipated Drilling Unit, of the well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable Leases. Each party contributing Leases and/or Oil and Gas Interests to be included in the Drillsite or Drilling Unit, if appropriate, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each Drilling Party. Costs incurred by Operator in procuring abstracts, fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in royalty opinions and division order title opinions) and other direct charges as provided in Exhibit "C" shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A." Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

~~Each party~~ ^{use its best efforts in} Operator shall be responsible for securing curative matter and pooling amendments or agreements required in connection with Leases or Oil and Gas Interests contributed by ~~such~~ ^{each} party. Operator shall be responsible for the preparation and recording of pooling designations or declarations and communitization agreements as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders or any other orders necessary or appropriate to the conduct of operations hereunder. This shall not prevent any party from appearing on its own behalf at such hearings. Costs incurred by Operator, including fees paid to outside attorneys, which are associated with hearings before governmental agencies, and which costs are necessary and proper for the activities contemplated under this agreement, shall be direct charges to the joint account and shall not be covered by the administrative overhead charges as provided in Exhibit "C."

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Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

No well shall be drilled on the Contract Area until after (1) the title to the Drillease or Drilling Unit, if appropriate, has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been and accepted by all of the Operator Drilling Parties in such well.

B. Loss or Failure of Title:

1. Failure of Title: Should any Oil and Gas Interest or Oil and Gas Lease be lost through failure of title, which results in a reduction of interest from that shown on Exhibit "A," the party credited with contributing the affected Lease or Interest (including, if applicable, a successor in interest to such party) shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII B, and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining Oil and Gas Leases and Interests; and:

(a) The party credited with contributing the Oil and Gas Lease or Interest affected by the title failure (including, if applicable, a successor in interest to such party) shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have previously paid or incurred, but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;

(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the Lease or Interest which has failed, but the interests of the parties remained on Exhibit "A" shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose Lease or Interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the Lease or Interest failed;

(c) If the proportionate interest of the other parties hereto in any producing well previously drilled on the Contract Area is increased by reason of the title failure, the party who bore the costs incurred in connection with such well attributable to the Lease or Interest which has failed shall receive the proceeds attributable to the increase in such interest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well attributable to such failed Lease or Interest;

(d) Should any person not a party to this agreement, who is determined to be the owner of any Lease or Interest which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded;

(e) Any liability to account to a person not a party to this agreement for prior production of Oil and Gas which arises by reason of title failure shall be borne severally by such party (including a predecessor to a current party) who received production for which such accounting is required based on the amount of such production received, and each such party shall severally indemnify, defend and hold harmless all other parties hereto for any such liability to account;

(f) No charge shall be made to the joint account for legal expenses, fees or salaries in connection with the defense of the Lease or Interest claimed to have failed, but if the party contributing such Lease or Interest hereto elects to defend its title it shall bear all expenses in connection therewith; and

(g) If any party is given credit on Exhibit "A" to a Lease or Interest which is limited solely in ownership of an interest in the wellbore of any well or wells and the production therefrom, such party's absence of interest in the remainder of the Contract Area shall be considered a failure of title as to such remaining Contract Area unless that absence of interest is reflected on Exhibit "A."

2. Loss by Non Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, or other payment necessary to maintain all or a portion of an Oil and Gas Lease or Interest is not paid or is erroneously paid, and as a result a Lease or Interest terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment acquires a new Lease or Interest covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII B, the interests of the parties reflected on Exhibit "A" shall be revised on an acreage basis, effective as of the date of termination of the Lease or Interest involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the Lease or Interest which has terminated. If the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of Oil and Gas attributable to the lost Lease or Interest, calculated on an acreage basis, for the development and operating costs previously paid on account of such Lease or Interest, it shall be reimbursed for unrecovered actual costs previously paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

(a) Proceeds of Oil and Gas produced prior to termination of the Lease or Interest, less operating expenses and lease burdens chargeable hereunder to the person who failed to make payment, previously accrued to the credit of the lost Lease or Interest, on an acreage basis, up to the amount of unrecovered costs;

(b) Proceeds of Oil and Gas, less operating expenses and lease burdens chargeable hereunder to the person who failed to make payment, up to the amount of unrecovered costs attributable to that portion of Oil and Gas thereafter produced and marketed (including production from any wells thereafter drilled) which, in the absence of such Lease or Interest termination, would be attributable to the lost Lease or Interest on an acreage basis and which as a result of such Lease or Interest termination is credited to other parties, the proceeds of said portion of the Oil and Gas to be contributed by the other parties in proportion to their respective interests reflected on Exhibit "A"; and;

(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the Lease or Interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

3. Other All Losses: All losses of Leases or Interests committed to this agreement, other than those set forth in Articles IV B 1 and IV B 2 above, shall be joint losses and shall be borne by all parties in proportion to their interests shown on Exhibit "A." This shall include but not be limited to the loss of any Lease or Interest through failure to develop or because express or implied covenants have not been performed (other than performance which requires only the payment of money), and the loss of any Lease by expiration at the end of its primary term if it is not renewed or extended. There shall be no readjustment of interests in the remaining portion of the Contract Area on account of any joint loss.

4. Curing Title: In the event of a Failure of Title under Article IV B 1, or a loss of title under Article IV B 2 above, any Lease or Interest acquired by any party hereto (other than the party whose interest has failed or was lost) during the ninety (90) day period provided by Article IV B 1 and Article IV B 2 above covering all or a portion of the interest that has failed or was lost shall be offered at once to the party whose interest has failed or was lost, and the provisions of Article VIII B shall not apply to such acquisition.

**ARTICLE V.
OPERATOR**

A. Designation and Responsibilities of Operator:

1. AMJADHQ, LLC shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. In its performance of services hereunder for the Non-Operators, Operator shall be an independent contractor not subject to the control or direction of the Non-Operators except as to the type of operation to be undertaken in accordance with the election procedures contained in this agreement. Operator shall not be deemed, or hold itself out as, the agent of the Non-Operators with authority to bind them to any obligation or liability assumed or incurred by Operator as to any third party. Operator shall conduct its activities under this agreement as a reasonable prudent operator, in a good and workmanlike manner, with due diligence and dispatch, in accordance with good oilfield practice, and in compliance with applicable law and regulation, but in no event shall it have any liability as Operator to the other parties for losses sustained or liabilities incurred except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed only for good cause by the affirmative vote of Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator; such vote shall not be deemed effective until a written notice has been delivered to the Operator by a Non-Operator detailing the alleged default and Operator has failed to cure the default within thirty (30) days from its receipt of the notice or, if the default concerns an operation then being conducted, within forty-eight (48) hours ^(exclusive of Saturdays and Sundays and U.S. Federal holidays) of its receipt of the notice. For purposes hereof, "good cause" shall mean not only gross negligence or willful misconduct but also the material breach of or inability to meet the standards of operation contained in Article V.A. or material failure or inability to perform its obligations under this agreement.

Subject to Article VII.D.1., such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator under any provision of this agreement, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed or is deemed to have resigned fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of the party or parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed or resigned. The former Operator shall promptly deliver to the successor Operator all records and data relating to the operations conducted by the former Operator to the extent such records and data are not already in the possession of the successor operator. Any cost of obtaining or copying the former Operator's records and data shall be charged to the joint account.

3. Effect of Bankruptcy: If Operator becomes insolvent, bankrupt or is placed in receivership, it shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. If a petition for relief under the federal bankruptcy laws is filed by or against Operator, and the removal of Operator is prevented by the federal bankruptcy court, all Non-Operators and Operator shall comprise an interim operating committee to serve until Operator has elected to reject or assume this agreement pursuant to the Bankruptcy Code, and an election to reject this agreement by Operator as a debtor in possession, or by a trustee in bankruptcy, shall be deemed a resignation as Operator without any action by Non-Operators, except the selection of a successor. During the period of time the operating committee controls operations, all actions shall require the approval of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A." In the event there are only two (2) parties to this agreement, during the period of time the operating committee controls operations, a third party acceptable to Operator, Non-Operator and the federal bankruptcy court shall be selected as a member of the operating committee, and all actions shall require the approval of two (2) members of the operating committee without regard for their interest in the Contract Area based on Exhibit "A."

C. Employees and Contractors:

The number of employees or contractors used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees or contractors shall be the employees or contractors of Operator.

D. Rights and Duties of Operator:

1. Competitive Rates and Use of Affiliates: All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area ^{for comparable equipment and personnel}. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature. All work performed or materials supplied by affiliates or related parties of Operator shall be performed or supplied at competitive rates, pursuant to written agreement, and in accordance with customs and standards prevailing in the industry.

2. Discharge of Joint Account Obligations: Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in Exhibit "C." Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

3. Protection from Liens: Operator shall pay, or cause to be paid, as and when they become due and payable, all accounts of contractors and suppliers and wages and salaries for services rendered or performed, and for materials supplied on, to or in respect of the Contract Area or any operations for the joint account thereof, and shall keep the Contract Area free from

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liens and encumbrances resulting therefrom except for those resulting from a bona fide dispute as to services rendered or materials supplied.

4. Custody of Funds: Operator shall hold for the account of the Non-Operators any funds of the Non-Operators advanced or paid to the Operator, either for the conduct of operations hereunder or as a result of the sale of production from the Contract Area, and such funds shall remain the funds of the Non-Operators on whose account they are advanced or paid until used for their intended purpose or otherwise delivered to the Non-Operators or, applied toward the payment of debts as provided in Article VII.B. Nothing in this paragraph shall be construed to establish a fiduciary relationship between Operator and Non-Operators for any purpose other than to account for Non-Operator funds as herein specifically provided. Nothing in this paragraph shall require the maintenance by Operator of separate accounts for the funds of Non-Operators unless the parties otherwise specifically agree.

5. Access to Contract Area and Records: Operator shall, except as otherwise provided herein, permit each Non-Operator or its duly authorized representative, at the Non-Operator's sole risk and cost, full and free access at all reasonable times to all operations of every kind and character being conducted for the joint account on the Contract Area and to the records of operations conducted thereon or production therefrom, including Operator's books and records relating thereto. Such access rights shall not be exercised in a manner interfering with Operator's conduct of an operation hereunder and shall not obligate Operator to furnish any geologic or geophysical data of an interpretive nature unless the cost of preparation of such interpretive data was charged to the joint account. Operator will furnish to each Non-Operator upon request copies of any and all reports and information obtained by Operator in connection with production and related items, including, without limitation, meter and chart reports, production purchaser statements, run tickets and monthly gauge reports, but excluding purchase contracts and pricing information to the extent not applicable to the production of the Non-Operator seeking the information. Any audit of Operator's records relating to amounts expended and the appropriateness of such expenditures shall be conducted in accordance with the audit protocol specified in Exhibit "C."

6. Filing and Furnishing Governmental Reports: Operator will file, and upon written request promptly furnish copies to each requesting Non-Operator not in default of its payment obligations, all operational notices, reports or applications required to be filed by local, State, Federal or Indian agencies or authorities having jurisdiction over operations hereunder. Each Non-Operator shall provide to Operator on a timely basis all information necessary to Operator to make such filings.

7. Drilling and Testing Operations: The following provisions shall apply to each well drilled hereunder, including but not limited to the Initial Well:

(a) Operator will promptly advise Non-Operators of the date on which the well is spudded, or the date on which drilling operations are commenced.

(b) Operator will send to Non-Operators such reports, test results and notices regarding the progress of operations on the well as the Non-Operators shall reasonably request, including, but not limited to, daily drilling reports, completion reports, and well logs.

(c) Operator shall adequately test all Zones encountered which may reasonably be expected to be capable of producing Oil and Gas in paying quantities as a result of examination of the electric log or any other logs or cores or tests conducted hereunder.

8. Cost Estimates: Upon request of any Consenting Party, Operator shall furnish estimates of current and cumulative costs incurred for the joint account at reasonable intervals during the conduct of any operation pursuant to this agreement. Operator shall not be held liable for errors in such estimates so long as the estimates are made in good faith.

9. Insurance: At all times while operations are conducted hereunder, Operator shall comply with the workers compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C." Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D" attached hereto and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workers compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event automobile liability insurance is specified in said Exhibit "D," or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

ARTICLE VI. DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the _____ day of _____, Operator shall commence the drilling of the Initial Well at the following location: The Initial Well shall be proposed under that certain Exploration Agreement dated April 5, 2012, between AMI Idaho, LLC and Bridge covering the Payette Area.

and shall thereafter continue the drilling of the well with due diligence to

~~The drilling of the Initial Well and the participation therein by all parties is obligatory, subject to Article VI.C.1 as to participation in Completion operations and Article VII.F. as to termination of operations and Article XI as to occurrence of force majeure.~~

B. Subsequent Operations:

1. Proposed Operations: If any party hereto should desire to drill any well on the Contract Area other than the Initial Well, or if any party should desire to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of producing in paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under this agreement, the party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written notice of the proposed operation to the parties who have not otherwise relinquished their interest in such objective Zone

under this agreement and to all other parties in the case of a proposal for Sidetracking or Deepening, specifying the work to be performed, the location, proposed depth, objective Zone and the estimated cost of the operation. The parties to whom such a notice is delivered shall have thirty (30) days after receipt of the notice within which to notify the party proposing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to Rework, Sidetrack, Recomplete, Plug Back or Deepen may be given by telephone and the response period shall be limited to forty-eight (48) hours, ~~exclusive~~ ^{U.S. Federal} inclusive of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is delivered to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. ~~Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties within the time and in the manner provided in Article VI.B.6.~~

If all parties to whom such notice is delivered elect to participate in such a proposed operation, the parties shall be contractually committed to participate therein provided such operations are commenced within the time period hereafter set forth, and Operator shall, no later than ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as practicable after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and thereafter complete it with due diligence at the risk and expense of the parties participating therein; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. If the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein or in the force majeure provisions of Article XI) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance herewith as if no prior proposal had been made. Those parties that did not participate in the drilling of a well for which a proposal to Deepen or Sidetrack is made hereunder shall, if such parties desire to participate in the proposed Deepening or Sidetracking operation, reimburse the Drilling Parties in accordance with Article VI.B.4. in the event of a Deepening operation and in accordance with Article VI.B.5. in the event of a Sidetracking operation.

2. Operations by Less Than All Parties:

(a) Determination of Participation. If any party to whom such notice is delivered as provided in Article VI.B.1. or VI.C.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, no later than ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as practicable after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (i) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (ii) designate one of the Consenting Parties as Operator to perform such work. The rights and duties granted to and imposed upon the Operator under this agreement are granted to and imposed upon the party designated as Operator for an operation in which the original Operator is a Non-Consenting Party. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise all Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, ~~within forty-eight (48) hours (exclusive inclusive of Saturday, Sunday, and legal holidays)~~ ^{U.S. Federal} after delivery of such notice, shall advise the proposing party of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its proportionate part (determined by dividing such party's interest in the Contract Area by the interests of all Consenting Parties in the Contract Area) of Non-Consenting Parties' interests, or (iii) carry its proportionate part (determined as provided in (ii)) of Non-Consenting Parties' interests together with all or a portion of its proportionate part of any Non-Consenting Parties' interests that any Consenting Party did not elect to take. Any interest of Non-Consenting Parties that is not carried by a Consenting Party shall be deemed to be carried by the party proposing the operation if such party does not withdraw its proposal. Failure to advise the proposing party within the time required shall be deemed an election under (i). In the event a drilling rig is on location, notice may be given by telephone, ~~mail, facsimile~~ ^{U.S. Federal} and the time permitted for such a response shall not exceed a total of forty-eight (48) hours ~~(exclusive inclusive of Saturday, Sunday and legal holidays)~~ ^{U.S. Federal}. The proposing party, at its election, may withdraw such proposal if there is less than 100% participation and shall notify all parties of such decision within ten (10) days, or within twenty-four (24) hours if a drilling rig is on location, following expiration of the applicable response period. If 100% subscription to the proposed operation is obtained, the proposing party shall promptly notify the Consenting Parties of their proportionate interests in the operation and the party serving as Operator shall commence such operation within the period provided in Article VI.B.1., subject to the same extension right as provided therein.

(b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, then subject to Articles ~~VI.B.6. and Article VI.E.3.~~ ^{U.S. Federal}, the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense; provided, however, that those Non-Consenting Parties that participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall pay, their proportionate shares of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs were not increased by the subsequent operations of the Consenting Parties. If any well drilled, Reworked, Sidetracked, Deepened, Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator (if the Operator did not conduct the operation) and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, Reworking, Sidetracking, Recompleting, Deepening or Plugging Back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking, Sidetracking,

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1 Deepening, Recompleting or Plugging Back, or a Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-
2 Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect
3 to participate. Such relinquishment shall be effective until the proceeds of the sale of such share, calculated at the well, or
4 market value thereof if such share is not sold (after deducting applicable ad valorem, production, severance, and excise taxes,
5 royalty, overriding royalty and other interests not excepted by Article III.C. payable out of or measured by the production
6 from such well accruing with respect to such interest until it reverts), shall equal the total of the following:

7 (i) 150.0 % of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment
8 beyond the wellhead connections (including but not limited to stock tanks, separators, treaters, pumping equipment and
9 piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first
10 production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other
11 provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that
12 interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning
13 of the operations; and

14 (ii) 350.0 % of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening,
15 Plugging Back, testing, Completing, and Recompleting, after deducting any cash contributions received under Article VIII.C.,
16 and of (b) that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections),
17 which would have been chargeable to such Non-Consenting Party if it had participated therein.

18 ~~Notwithstanding anything to the contrary in this Article VI.B., if the well does not reach the deepest objective zone~~
19 ~~described in the notice proposing the well for reasons other than the encountering of granite or practically impenetrable~~
20 ~~substance or other condition in the hole rendering further operations impracticable, Operator shall give notice thereof to each~~
21 ~~Non-Consenting Party who submitted or voted for an alternative proposal under Article VI.B. to drill the well to a~~
22 ~~shallower zone than the deepest objective zone proposed in the notice under which the well was drilled, and each such Non-~~
23 ~~Consenting Party shall have the option to participate in the initial proposed Completion of the well by paying its share of the~~
24 ~~cost of drilling the well to its actual depth, calculated in the manner provided in Article VI.B.1. (a) If any such Non-~~
25 ~~Consenting Party does not elect to participate in the first Completion proposed for such well, the relinquishment provisions~~
26 ~~of this Article VI.B.2. (b) shall apply to such party's interest.~~

27 (c) Reworking, Recompleting or Plugging Back. An election not to participate in the drilling, Sidetracking or
28 Deepening of a well shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in
29 such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full
30 recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Similarly, an election not to
31 participate in the Completing or Recompleting of a well shall be deemed an election not to participate in any Reworking
32 operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at
33 any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Any such
34 Reworking, Recompleting or Plugging Back operation conducted during the recoupment period shall be deemed part of the
35 cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties 500.0 % of
36 that portion of the costs of the Reworking, Recompleting or Plugging Back operation which would have been chargeable to
37 such Non-Consenting Party had it participated therein. If such a Reworking, Recompleting or Plugging Back operation is
38 proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting
39 Parties in said well.

40 (d) Recoupment Matters. During the period of time Consenting Parties are entitled to receive Non-Consenting Party's
41 share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all ad valorem,
42 production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to
43 Non-Consenting Party's share of production not excepted by Article III.C.

44 In the case of any Reworking, Sidetracking, Plugging Back, Recompleting or Deepening operation, the Consenting
45 Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all
46 such equipment shall remain unchanged; and upon abandonment of a well after such Reworking, Sidetracking, Plugging Back,
47 Recompleting or Deepening, the Consenting Parties shall account for all such equipment to the owners thereof, with each
48 party receiving its proportionate part in kind or in value, less cost of salvage.

49 Within ninety (90) days after the completion of any operation under this Article, the party conducting the operations
50 for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to
51 the well, and an itemized statement of the cost of drilling, Sidetracking, Deepening, Plugging Back, testing, Completing,
52 Recompleting, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement
53 of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the
54 Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties
55 shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of
56 the well, together with a statement of the quantity of Oil and Gas produced from it and the amount of proceeds realized from
57 the sale of the well's working interest production during the preceding month. In determining the quantity of Oil and Gas
58 produced during any month, Consenting Parties shall use industry accepted methods such as but not limited to metering or
59 periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with
60 any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited
61 against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such
62 Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-
63 Consenting Party.

64 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided
65 for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it as of 7:00 a.m. on the day
66 following the day on which such recoupment occurs, and, from and after such reversion, such Non-Consenting Party shall
67 own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as
68 such Non-Consenting Party would have been entitled to had it participated in the drilling, Sidetracking, Reworking,
69 Deepening, Recompleting or Plugging Back of said well. Thereafter, such Non-Consenting Party shall be charged with and
70 shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this
71 agreement and Exhibit "C" attached hereto.

72 3. Stand-By Costs. When a well which has been drilled or Deepened has reached its authorized depth and all tests have
73 been completed and the results thereof furnished to the parties, or when operations on the well have been otherwise
74 terminated pursuant to Article VI.F., stand-by costs incurred pending response to a party's notice proposing a Reworking,

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1 Sidetracking, Deepening, Recompleting, Plugging Back or Completing operation in such a well (including the period required
2 under Article VI.B.6. to resolve competing proposals) shall be charged and borne as part of the drilling or Deepening
3 operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted,
4 whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms
5 of the second grammatical paragraph of Article VI.B.2. (a), shall be charged to and borne as part of the proposed operation,
6 but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated
7 between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total
8 interest as shown on Exhibit "A" of all Consenting Parties.

9 ~~In the event that notice for a Sidetracking operation is given while the drilling rig to be utilized is on location, any party~~
10 ~~may request and receive up to five (5) additional days after expiration of the forty-eight hour response period specified in~~
11 ~~Article VI.B.1. within which to respond by paying for all stand-by costs and other costs incurred during such extended~~
12 ~~response period; Operator may require such party to pay the estimated stand-by time in advance as a condition to extending~~
13 ~~the response period. If more than one party elects to take such additional time to respond to the notice, standby costs shall be~~
14 ~~allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's~~
15 ~~interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties.~~

16 4. Deepening: If less than all parties elect to participate in a drilling, Sidetracking, or Deepening operation proposed
17 pursuant to Article VI.B.1., the interest relinquished by the Non-Consenting Parties to the Consenting Parties under Article
18 VI.B.2. shall relate only and be limited to the lesser of (i) the total depth actually drilled or, in the case of a Horizontal Well, the length of
19 the horizontal wellbore or (ii) the objective depth or Zone or in the case of a Horizontal Well, the length of the horizontal wellbore
20 of which the parties were given notice under Article VI.B.1. ("Initial Objective"). Such well shall not be Deepened beyond the
21 Initial Objective without first complying with this Article to afford the Non-Consenting Parties the opportunity to participate
22 in the Deepening operation. In the case of a horizontal well

23 In the event any Consenting Party desires to drill or Deepen a Non-Consent Well to a depth below the Initial Objective,
24 such party shall give notice thereof, complying with the requirements of Article VI.B.1., to all parties (including Non-
25 Consenting Parties). Thereupon, Articles VI.B.1. and 2. shall apply and all parties receiving such notice shall have the right to
26 participate or not participate in the Deepening of such well pursuant to said Articles VI.B.1. and 2. If a Deepening operation
27 is approved pursuant to such provisions, and if any Non-Consenting Party elects to participate in the Deepening operation,
28 such Non-Consenting party shall pay or make reimbursement (as the case may be) of the following costs and expenses.

29 (a) If the proposal to Deepen is made prior to the Completion of such well as a well capable of producing in paying
30 quantities, such Non-Consenting Party shall pay (or reimburse Consenting Parties for, as the case may be) that share of costs
31 and expenses incurred in connection with the drilling of said well from the surface to the Initial Objective which Non-
32 Consenting Party would have paid had such Non-Consenting Party agreed to participate therein, plus the Non-Consenting
33 Party's share of the cost of Deepening and of participating in any further operations on the well in accordance with the other
34 provisions of this Agreement; provided, however, all costs for testing and Completion or attempted Completion of the well
35 incurred by Consenting Parties prior to the point of actual operations to Deepen beyond the Initial Objective shall be for the
36 sole account of Consenting Parties.

37 (b) If the proposal is made for a Non-Consent Well that has been previously Completed as a well capable of producing
38 in paying quantities, but is no longer capable of producing in paying quantities, such Non-Consenting Party shall pay (or
39 reimburse Consenting Parties for, as the case may be) its proportionate share of all costs of drilling, Completing, and
40 equipping said well from the surface to the Initial Objective, calculated in the manner provided in paragraph (a) above, less
41 those costs recouped by the Consenting Parties from the sale of production from the well. The Non-Consenting Party shall
42 also pay its proportionate share of all costs of re-entering said well. The Non-Consenting Parties' proportionate part (based
43 on the percentage of such well Non-Consenting Party would have owned had it previously participated in such Non-Consent
44 Well) of the costs of salvable materials and equipment remaining in the hole and salvable surface equipment used in
45 connection with such well shall be determined in accordance with Exhibit "C." If the Consenting Parties have recouped the
46 cost of drilling, Completing, and equipping the well at the time such Deepening operation is conducted, then a Non-
47 Consenting Party may participate in the Deepening of the well with no payment for costs incurred prior to re-entering the
48 well for Deepening

49 The foregoing shall not imply a right of any Consenting Party to propose any Deepening for a Non-Consent Well prior
50 to the drilling of such well to its Initial Objective without the consent of the other Consenting Parties as provided in Article
51 VI.F.

52 5. Sidetracking: Any party having the right to participate in a proposed Sidetracking operation that does not own an
53 interest in the affected wellbore at the time of the notice shall, upon electing to participate, tender to the wellbore owners its
54 proportionate share (equal to its interest in the Sidetracking operation) of the value of that portion of the existing wellbore
55 to be utilized as follows:

56 (a) If the proposal is for Sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs
57 incurred in the initial drilling of the well down to the depth at which the Sidetracking operation is initiated.

58 (b) If the proposal is for Sidetracking a well which has previously produced, reimbursement shall be on the basis of
59 such party's proportionate share of drilling and equipping costs incurred in the initial drilling of the well down to the depth
60 at which the Sidetracking operation is conducted, calculated in the manner described in Article VI.B.4(b) above. Such party's
61 proportionate share of the cost of the well's salvable materials and equipment down to the depth at which the Sidetracking
62 operation is initiated shall be determined in accordance with the provisions of Exhibit "C."

63 ~~"Order of Preference of Operations. Any reference to Article VI.B.6 in this Agreement is hereby deleted and in lieu thereof~~
64 ~~inserted Article VII.A. except as otherwise specifically provided in this Agreement. If any party desires to~~
65 ~~propose the conduct of an operation that conflicts with a proposal that has been made by a party under this Article VI, such~~
66 ~~party shall have fifteen (15) days from delivery of the initial proposal, in the case of a proposal to drill a well or to perform~~
67 ~~an operation in a well where no drilling rig is on location, or twenty-four (24) hours, exclusive of Saturday, Sunday and legal~~
68 ~~holidays, from delivery of the initial proposal, if a drilling rig is on location for the well on which such operation is to be~~
69 ~~conducted to deliver to all parties entitled to participate in the proposed operation such party's alternative proposal, such~~
70 ~~alternate proposal to contain the same information required to be included in the initial proposal. Each party receiving such~~
71 ~~proposal shall elect by delivery of notice to Operator within five (5) days after expiration of the proposal period, or within~~
72 ~~twenty-four (24) hours exclusive of Saturday, Sunday and legal holidays, if a drilling rig is on location for the well that is the~~
73 ~~subject of the proposal, to participate in one of the competing proposals. Any party not electing within the time required~~
74 ~~shall be deemed not to have voted. The proposal receiving the vote of parties owning the largest aggregate percentage~~
~~interest of the parties voting shall have priority over all other competing proposals. In the case of a tie vote, the~~

Initial proposal shall prevail. Operator shall deliver notice of such results to all parties entitled to participate in the operation within five (5) days after expiration of the election period for which to vote. ~~On the~~ ~~evening of~~ ~~Saturday~~ Sunday and legal holidays if a drilling rig is on location. Each party shall then have two (2) days (or twenty-four (24) hours if a rig is on location) from receipt of such notice to elect by delivery of notice to Operator to participate in such operation or to relinquish interest in the affected well pursuant to the provisions of Article XVI-B-2. Failure by a party to deliver notice within such period shall be deemed an election not to participate in the prevailing proposal.

8. Paying Wells. No party shall conduct any Reworking, Deepening, Plugging Back, Completion, Recompletion, or Sidetracking operation under this agreement with respect to any well then capable of producing in paying quantities except with the consent of all parties that have not relinquished interests in the well at the time of such operation.

1. Completion: Without the consent of all parties, no well shall be drilled, Deepened or Sidetracked, except any well drilled, Deepened or Sidetracked pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling, Deepening or Sidetracking shall include:

☒ Option No. 2: ~~All necessary expenditures for the drilling, Deepening or Sidetracking and testing of the well. When~~

2. Rework, Recomplete or Plug Back: No well shall be Reworked, Recompleted or Plugged Back except a well Reworked, Recompleted, or Plugged Back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the Reworking, Completing or Plugging Back of a well shall include all necessary expenditures in conducting such operations and Completing and equipping of said well, including necessary tankage and/or surface facilities.

Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of _____

Time

E. Abandonment of Wells:

1. Abandonment of Dry Hole: Except for any well drilled or Deepened pursuant to Article VII B.2, any well which has been drilled or Deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be

1 plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any
 2 party, or should any party fail to reply within forty-eight (48) hours ~~(exclusive of Saturday, Sunday and U.S. Federal~~ ^{U.S. Federal} holidays) after
 3 delivery of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the
 4 proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the
 5 cost, risk and expense of the parties who participated in the cost of drilling or Deepening such well. Any party who objects to
 6 plugging and abandoning such well by notice delivered to Operator within forty-eight (48) hours ~~(exclusive of Saturday,~~ ^{U.S. Federal} ~~Sunday and U.S. Federal~~ holidays) after delivery of notice of the proposed plugging shall take over the well as of the end of such
 7 forty-eight (48) hour notice period and conduct further operations in search of Oil and/or Gas subject to the provisions of
 8 Article VI.B.; failure of such party to provide proof reasonably satisfactory to Operator of its financial capability to conduct
 9 such operations or to take over the well within such period or thereafter to conduct operations on such well or plug and
 10 abandon such well shall entitle Operator to retain or take possession of the well and plug and abandon the well. The party
 11 taking over the well shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against
 12 liability for any further operations conducted on such well except for the costs of plugging and abandoning the well and
 13 restoring the surface, for which the abandoning parties shall remain proportionately liable.

15 2. Abandonment of Wells That Have Produced: Except for any well in which a Non-Consent operation has been
 16 conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has
 17 been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to
 18 such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk
 19 and expense of all the parties hereto. Failure of a party to reply within ~~thirty (30) days~~ ^{thirty (30) days} of delivery of notice of proposed
 20 abandonment shall be deemed an election to consent to the proposal. If, within ~~thirty (30) days~~ ^{thirty (30) days} after delivery of notice of the
 21 proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its
 22 operation from the Zone then open to production shall be obligated to take over the well as of the expiration of the
 23 applicable notice period and shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties
 24 against liability for any further operations on the well conducted by such parties. Failure of such party or parties to provide
 25 proof reasonably satisfactory to Operator of their financial capability to conduct such operations or to take over the well
 26 within the required period or thereafter to conduct operations on such well shall entitle operator to retain or take possession
 27 of such well and plug and abandon the well.

28 Parties taking over a well as provided herein shall tender to each of the other parties its proportionate share of the value of
 29 the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C," less the estimated cost
 30 of salvaging and the estimated cost of plugging and abandoning and restoring the surface, ~~provided, however, that in the event~~
 31 ~~the estimated plugging and abandoning and surface restoration costs and the estimated cost of salvaging are higher than the~~
 32 ~~value of the well's salvable material and equipment, each of the abandoning parties shall tender to the parties owning~~
 33 ~~operations their proportionate share of the estimated excess cost.~~ Each abandoning party shall assign to the non-abandoning
 34 parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all
 35 of its interest in the wellbore of the well and related equipment, together with its interest in the Leasehold insofar and only
 36 insofar as such Leasehold covers the right to obtain production from that wellbore in the Zone then open to production. If the
 37 interest of the abandoning party is or includes an Oil and Gas Interest, such party shall execute and deliver to the non-
 38 abandoning party or parties an oil and gas lease, limited to the wellbore and the Zone then open to production, for a term of
 39 one (1) year and so long thereafter as Oil and/or Gas is produced from the Zone covered thereby, such lease to be on the terms
 40 ~~mutually agreeable to the parties.~~ ^{mutually agreeable to the parties.} The assignments or leases so limited shall encompass the Drilling Unit upon which the well is located.
 41 The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their
 42 respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract
 43 Area of all assignees. There shall be no readjustment of interests in the remaining portions of the Contract Area.

44 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production
 45 from the well in the Zone then open other than the royalties retained in any lease made under the terms of this Article.

46 ~~Upon~~ ^{may, at its sole discretion, elect} ~~request, Operator shall continue to operate~~ the assigned well for the account of the non-abandoning parties at the rates and
 47 charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate
 48 ownership of the assigned well. Upon proposed abandonment of the producing Zone assigned or leased, the assignor or lessor
 49 shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in
 50 further operations therein subject to the provisions hereof.

51 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2. above shall be applicable as
 52 between Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided,
 53 however, no well shall be permanently plugged and abandoned unless and until all parties having the right to conduct further
 54 operations therein have been notified of the proposed abandonment and afforded the opportunity to elect to take over the well
 55 in accordance with the provisions of this Article VI.E.; and provided further, that Non-Consenting Parties who own an interest
 56 in a portion of the well shall pay their proportionate shares of abandonment and surface restoration cost for such well as
 57 provided in Article VI.B.2.(b).

58 F. Termination of Operations:

59 Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing,
 60 Completion or plugging of a well, including but not limited to the Initial Well, such operation shall not be terminated without
 61 consent of parties bearing 60 % of the costs of such operation; provided, however, that in the event granite or other
 62 practically impenetrable substance or condition in the hole is encountered which renders further operations impractical,
 63 Operator may discontinue operations and give notice of such condition in the manner provided in Article VI.B.1, and the
 64 provisions of Article VI.B. or VI.E. shall thereafter apply to such operation, as appropriate.

65 G. Taking Production in Kind:

66 ☒ Option No. 1: Gas Balancing Agreement Attached
 67 ~~Each party shall take in kind and separately dispose of its proportionate share of all Oil and Gas produced from the~~
 68 ~~Contract Area, exclusive of production which may be used in development and producing operations and in preparing and~~
 69 ~~treating Oil and Gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking~~
 70 ~~in kind and separate disposition by any party of its proportionate share of the production shall be borne by such party. Any~~
 71 ~~party taking its share of production in kind shall be required to pay for only its proportionate share of such part of~~
 72 ~~Operator's surface facilities which it uses.~~
 73 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in
 74 production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment

directly from the purchaser thereof for its share of all production.

If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the Oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, ~~but not the obligation~~, to purchase such Oil or sell it to others at any time and from time to time, for the account of the non-taking party at the same price obtained for Operator's share of production under an arms length ~~third party purchase or sales contract~~. Any such purchase or sale by Operator may be terminated by Operator upon at least ten (10) ~~thirty (30)~~ days written notice to the owner of said production and shall be subject always to the right of the owner of the production upon at least ten (10) ~~thirty (30)~~ days written notice to Operator to exercise at any time its right to take in kind, or separately dispose of, its share of all Oil provided, however, that the effective date of any such revocation may be deferred at Operator's election for a period not to exceed ninety (90) days if Operator has committed such production to a purchase contract having a term extending beyond such thirty (30) day period, not previously delivered to a purchaser.

Any purchase or sale by Operator of any other party's share of Oil shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

Any such sale of Oil and Gas by Operator shall be in a manner commercially reasonable under the circumstances but Operator shall have no duty to share any existing market or to obtain a price equal to that received under any existing market. The sale or delivery by Operator of a non-taking party's share of Oil and Gas under the terms of any existing contract of Operator shall not give the non-taking party any interest in or make the non-taking party a party to said contract. No purchase shall be made by Operator without first giving the non-taking party at least ten (10) days written notice of such intended purchase and the price to be paid or the pricing basis to be used.

All parties shall give timely written notice to Operator of their Gas marketing arrangements for the following month, excluding price, and shall notify Operator immediately in the event of a change in such arrangements. Operator shall maintain records of all marketing arrangements, and of volumes actually sold or transported, which records shall be made available to Non-Operators upon reasonable request.

In the event one or more parties fail to take in kind or separately dispose of its/their proportionate share of gas, and if such parties separate disposition of its/their share of the Gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total Gas sales to be allocated to it, the balancing or accounting between the parties shall be in accordance with ~~any Gas Balancing Agreement between the parties hereto, whether such an agreement is attached as Exhibit "E" or is a separate agreement.~~ Operator shall give notice to all parties of the first sales of Gas from any well under this agreement. ~~If any party creates the necessity for separate measurement facilities such party shall bear all costs related to purchase, installation and maintenance of such facilities.~~

☒ Option No. 2: No Gas Balancing Agreements

~~Each party shall take in kind or separately dispose of its proportionate share of all Oil and Gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and treating Oil and Gas for marketing purposes and production unavoidably lost. Any extra expenditures incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.~~

~~Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII B, shall be entitled to receive payment directly from the purchaser thereof for its share of all production.~~

~~If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the Oil and/or Gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such Oil and/or Gas or sell it to others at any time and from time to time, for the account of the non-taking party. Any such purchase or sale by Operator may be terminated by Operator upon at least ten (10) days written notice to the owner of said production and shall be subject always to the right of the owner of the production upon at least ten (10) days written notice to Operator to exercise its right to take in kind, or separately dispose of, its share of all Oil and/or Gas not previously delivered to a purchaser, provided, however, that the effective date of any such revocation may be deferred at Operator's election for a period not to exceed ninety (90) days if Operator has committed such production to a purchase contract having a term extending beyond such ten (10) day period. Any purchase or sale by Operator of any other party's share of Oil and/or Gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.~~

~~Any such sale by Operator shall be in a manner commercially reasonable under the circumstances, but Operator shall have no duty to share any existing market or transportation arrangement or to obtain a price or transportation fee equal to that received under any existing market or transportation arrangement. The sale or delivery by Operator of a non-taking party's share of production under the terms of any existing contract of Operator shall not give the non-taking party any interest in or make the non-taking party a party to said contract. No purchase of Oil and Gas and no sale of Gas shall be made by Operator without first giving the non-taking party ten days written notice of such intended purchase or sale and the price to be paid or the pricing basis to be used. Operator shall give notice to all parties of the first sale of Gas from any well under this Agreement.~~

~~All parties shall give timely written notice to Operator of their Gas marketing arrangements for the following month, excluding price, and shall notify Operator immediately in the event of a change in such arrangements. Operator shall maintain records of all marketing arrangements, and of volumes actually sold or transported, which records shall be made available to Non-Operators upon reasonable request.~~

ARTICLE VII.

EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII B. are given to secure only the debts of each severally, and no party shall have any liability to third parties hereunder to satisfy the default of any other party in the payment of any expense or obligation hereunder. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership, joint venture, agency relationship or association, or to render the parties liable as partners, co-venturers, or

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1 principals. In their relations with each other under this agreement, the parties shall not be considered fiduciaries or to have
2 established a confidential relationship but rather shall be free to act on an arm's-length basis in accordance with their own
3 respective self-interest, subject, however, to the obligation of the parties to act in good faith in their dealings with each other
4 with respect to activities hereunder.

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B. Liens and Security Interests:

Each party grants to the other parties hereto a lien upon any interest it now owns or hereafter acquires in Oil and Gas Leases and Oil and Gas Interests in the Contract Area, and a security interest and/or purchase money security interest in any interest it now owns or hereafter acquires in the personal property and fixtures on or used or obtained for use in connection therewith, to secure performance of all of its obligations under this agreement including but not limited to payment of expense, interest and fees, the proper disbursement of all monies paid hereunder, the assignment or relinquishment of interest in Oil and Gas Leases as required hereunder, and the proper performance of operations hereunder. Such lien and security interest granted by each party hereto shall include such party's leasehold interests, working interests, operating rights, and royalty and overriding royalty interests in the Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or otherwise becoming subject to this agreement, the Oil and Gas when extracted therefrom and equipment situated thereon or used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts (including, without limitation, accounts arising from gas imbalances or from the sale of Oil and/or Gas at the wellhead), contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the foregoing.

To perfect the lien and security agreement provided herein, each party hereto shall execute and acknowledge the recording supplement and/or any financing statement prepared and submitted by any party hereto in conjunction herewith or at any time following execution hereof, and Operator is authorized to file this agreement or the recording supplement executed herewith as a lien or mortgage in the applicable real estate records and as a financing statement with the proper officer under the Uniform Commercial Code in the state in which the Contract Area is situated and such other states as Operator shall deem appropriate to perfect the security interest granted hereunder. Any party may file this agreement, the recording supplement executed herewith, or such other documents as it deems necessary as a lien or mortgage in the applicable real estate records and/or a financing statement with the proper officer under the Uniform Commercial Code.

Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this agreement by, through or under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this agreement, whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by this Article VII.B. as to all obligations attributable to such interest hereunder whether or not such obligations arise before or after such interest is acquired.

To the extent that parties have a security interest under the Uniform Commercial Code of the state in which the Contract Area is situated, they shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by a party for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any party in the payment of its share of expenses, interests or fees, or upon the improper use of funds by the Operator, the other parties shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such defaulting party's share of Oil and Gas until the amount owed by such party, plus interest as provided in "Exhibit C," has been received, and shall have the right to offset the amount owed against the proceeds from the sale of such defaulting party's share of Oil and Gas. ~~All purchasers of production may rely on a notification of default from the non-defaulting party or parties stating the amount due as a result of the default, and all parties waive any recourse available against purchasers for releasing production proceeds as provided in this paragraph.~~

If any party fails to pay its share of cost within one hundred twenty (120) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. The amount paid by each party so paying its share of the unpaid amount shall be secured by the liens and security rights described in Article VII.B., and each paying party may independently pursue any remedy available hereunder or otherwise.

If any party does not perform all of its obligations hereunder, and the failure to perform subjects such party to foreclosure or execution proceedings pursuant to the provisions of this agreement, to the extent allowed by governing law, the defaulting party waives any available right of redemption from and after the date of judgment, any required valuation or appraisal of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshaling of assets and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party hereby grants to the other parties a power of sale as to any property that is subject to the lien and security rights granted hereunder, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable manner and upon reasonable notice.

Each party agrees that the other parties shall be entitled to utilize the provisions of Oil and Gas lien law or other lien law of any state in which the Contract Area is situated to enforce the obligations of each party hereunder. Without limiting the generality of the foregoing, to the extent permitted by applicable law, Non-Operators agree that Operator may invoke or utilize the mechanics' or materialmen's lien law of the state in which the Contract Area is situated in order to secure the payment to Operator of any sum due hereunder for services performed or materials supplied by Operator.

C. Advances: Advancement of estimated costs shall be in accordance with Article XVI.C.

~~Operator at its election shall have the right from time to time to demand and receive from one or more of the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.~~

D. Defaults and Remedies:

If any party fails to discharge any financial obligation under this agreement, including without limitation the failure to make any advance under the ~~preceding Article VII.C. XVI.C.~~ or any other provision of this agreement, within the period required for such payment hereunder, then in addition to the remedies provided in Article VII.B. or elsewhere in this agreement, the remedies specified below shall be applicable. For purposes of this Article VII.D., all notices and elections shall be delivered

only by Operator, except that Operator shall deliver any such notice and election requested by a non-defaulting Non-Operator, and when Operator is the party in default, the applicable notices and elections can be delivered by any Non-Operator. Election of any one or more of the following remedies shall not preclude the subsequent use of any other remedy specified below or otherwise available to a non-defaulting party.

~~1. Suspension of Rights. Any party may deliver to the party in default a Notice of Default, which shall specify the default, specify the action to be taken to cure the default, and specify that failure to take such action will result in the exercise of one or more of the remedies provided in this Article. If the default is not cured within thirty (30) days of the delivery of such Notice of Default, all of the rights of the defaulting party granted by this agreement may upon notice be suspended until the default is cured, without prejudice to the right of the non-defaulting party or parties to continue to enforce the obligations of the defaulting party previously accrued or thereafter accruing under this agreement. If Operator is the party in default, the Non-Operators shall have in addition the right, by vote of Non-Operators owning a majority in interest in the Contract Area after excluding the voting interest of Operator, to appoint a new Operator effective immediately. The rights of a defaulting party that may be suspended hereunder at the election of the non-defaulting parties shall include, without limitation, the right to receive information as to any operation conducted hereunder during the period of such default, the right to elect to participate in an operation proposed under Article VIB. of this agreement, the right to participate in an operation being conducted under this agreement even if the party has previously elected to participate in such operation, and the right to receive proceeds of production from any well subject to this agreement.~~

2. Suit for Damages. Non-defaulting parties or Operator for the benefit of non-defaulting parties may sue (at joint account expense) to collect the amounts in default, plus interest accruing on the amounts recovered from the date of default until the date of collection at the rate specified in Exhibit "C" attached hereto. Nothing herein shall prevent any party from suing any defaulting party to collect consequential damages accruing to such party as a result of the default.

3. Deemed Non-Consent. The non-defaulting party may deliver a written Notice of Non-Consent Election to the defaulting party at any time after the expiration of the thirty-day cure period following delivery of the Notice of Default, in which event if the billing is for the drilling a new well or the Plugging Back, Sidetracking, Reworking or Deepening of a well which is to be or has been plugged as a dry hole, or for the Completion or Recompletion of any well, the defaulting party will be conclusively deemed to have elected not to participate in the operation and to be a Non-Consenting Party with respect thereto under Article VIB. or VIC., as the case may be, to the extent of the costs unpaid by such party, notwithstanding any election to participate theretofore made. ~~If election is made to proceed under this provision, then the non-defaulting parties may not elect to sue for the unpaid amount pursuant to Article VII.D.3.~~

Until the delivery of such Notice of Non-Consent Election to the defaulting party, such party shall have the right to cure its default by paying its unpaid share of costs plus interest at the rate set forth in Exhibit "C," provided, however, such payment shall not prejudice the rights of the non-defaulting parties to pursue remedies for damages incurred by the non-defaulting parties as a result of the default. Any interest relinquished pursuant to this Article VII.D.3. shall be offered to the non-defaulting parties in proportion to their interests, and the non-defaulting parties electing to participate in the ownership of such interest shall be required to contribute their shares of the defaulted amount upon their election to participate therein.

4. Advance Payment. If a default is not cured within thirty (30) days of the delivery of a Notice of Default, Operator, or Non-Operators if Operator is the defaulting party, may thereafter require advance payment from the defaulting party of such defaulting party's anticipated share of any item of expense for which Operator, or Non-Operators, as the case may be, would be entitled to reimbursement under any provision of this agreement, whether or not such expense was the subject of the previous default. Such right includes, but is not limited to, the right to require advance payment for the estimated costs of drilling a well or Completion of a well as to which an election to participate in drilling or Completion has been made. If the defaulting party fails to pay the required advance payment, the non-defaulting parties may pursue any of the remedies provided in the Article VII.D. or any other default remedy provided elsewhere in this agreement. Any excess of funds advanced remaining when the operation is completed and all costs have been paid shall be promptly returned to the advancing party.

5. Costs and Attorneys' Fees. In the event any party is required to bring legal proceedings to enforce any financial obligation of a party hereunder, the prevailing party in such action shall be entitled to recover all court costs, costs of collection, and a reasonable attorney's fee, which the lien provided for herein shall also secure.

E. Rentals, Shut-in Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid ~~Operator for the joint account of the parties hereto. Operator shall bill the parties hereto for their proportionate share of all such payments in accordance with the OPA's attached as Exhibit~~ by the party or parties who subjected such lease to this agreement ~~at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties.~~ Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

Operator shall notify Non-Operators of the anticipated completion of a shut-in well, or the shutting in or return to production of a producing well, at least five (5) days (excluding Saturday, Sunday, and legal holidays) prior to taking such action, or at the earliest opportunity permitted by circumstances, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operators, the loss of any lease contributed hereto by Non-Operators for failure to make timely payments of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.1.

F. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement ~~which by law shall be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent.~~ ^{is rendered applicable} Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on Leases and Oil and Gas Interests contributed by such Non-Operator. If the assessed valuation of any Lease is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such Lease, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C."

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If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C."

Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of Oil and Gas produced under the terms of this agreement.

ARTICLE VIII.

ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

The Leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any Lease or in any portion thereof, such party shall give written notice of the proposed surrender to all parties, and the parties to whom such notice is delivered shall have thirty (30) days after delivery of the notice within which to notify the party proposing the surrender whether they elect to consent thereto. Failure of a party to whom such notice is delivered to reply within said 30-day period shall constitute a consent to the surrender of the Leases described in the notice. If all parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such Lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an Oil and Gas Interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such Oil and Gas Interest for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the land covered thereby, such lease to be on a mutually agreeable form, ~~the form attached hereto as Exhibit "B"~~. Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production ~~other than the royalties retained in any lease made under the terms of this Article.~~ The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any well's salvable materials and equipment attributable to the assigned or leased acreage. The value of all salvable materials and equipment shall be determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface. ~~If such value is less than such costs, then the party assignor or lessor shall pay to the party assignee or lessee the amount of such deficit.~~ If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties. If the interest of the parties to whom the assignment is to be made varies according to depth, then the interest assigned shall similarly reflect such variances.

Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, ~~lessor's or surrendering~~ party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement but shall be deemed subject to an Operating Agreement in the form of this agreement.

B. Renewal, or Extension or Acquisition of Leases:

~~If any party acquires, or succeeds to, a renewal or replacement of, an Oil and Gas Lease on lands or interest within the Contract Area subject to this agreement, then all other parties~~ ^(which shall include renewals and extensions) shall be notified promptly upon such acquisition or, in the case of a replacement Lease taken before expiration of an existing Lease, promptly upon expiration of the existing Lease. The parties notified shall have the right for a period of thirty (30) days following delivery of such notice in which to elect to participate in the ownership of the ~~renewal or replacement Lease~~, ^{acquired Oil and Gas} insofar as such Lease affects lands within the Contract Area, by paying to the party who acquired it their proportionate shares of the acquisition cost allocated to that part of such Lease within the Contract Area, which shall be in proportion to the interest held at that time by the parties in the Contract Area. Each party who participates in the purchase of an ~~Oil and Gas~~ ^{acquired Oil and Gas} Lease shall be given an assignment of its proportionate interest therein by the acquiring party.

~~If some, but less than all, of the parties elect to participate in the purchase of an Oil and Gas Lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal or replacement Lease. The acquisition of all Oil and Gas Leases by any or all of the parties hereto shall not cause a readjustment of the interests of the parties stated in Exhibit "A," but any Lease taken or contracted for more than six (6) months after the expiration of an existing Lease shall not be deemed a renewal or replacement Lease and shall not be subject to the provisions of this Agreement in the form of this agreement.~~ ^{acquired Oil and Gas}

~~If the interests of the parties in the Contract Area vary according to depth, then their right to participate proportionately in the purchase of an Oil and Gas Lease and their right to receive an assignment of interest shall also reflect such depth variances.~~ ^{acquired Oil and Gas}

~~The provisions of this Article shall apply to renewals or replacement Leases whether they are for the entire interest covered by the expiring Lease or cover only a portion of its area or an interest therein. Any renewal or replacement Lease taken before the expiration of its predecessor Lease, or taken or contracted for or becoming effective within six (6) months after the expiration of the existing Lease, shall be subject to this provision so long as this agreement is in effect at the time of such acquisition or at the time the renewal or replacement Lease becomes effective; but any Lease taken or contracted for more than six (6) months after the expiration of an existing Lease shall not be deemed a renewal or replacement Lease and shall not be subject to the provisions of this agreement.~~ ^{acquired Oil and Gas}

The provisions in this Article shall also be applicable to extensions of Oil and Gas Leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of well drilled inside Contract Area.

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If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

D. Assignment; Maintenance of Uniform Interest:

For the purpose of maintaining uniformity of ownership in the Contract Area in the Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production covered by this agreement no party shall sell, encumber, transfer or make other disposition of its interest in the Oil and Gas Leases and Oil and Gas Interests embraced within the Contract Area or in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production; or
2. an equal undivided percent of the party's present interest in all Oil and Gas Leases, Oil and Gas Interests, wells,

equipment and production in the Contract Area.

Every sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement and shall be made without prejudice to the right of the other parties, and any transferee of an ownership interest in any Oil and Gas Lease or Interest shall be deemed a party to this agreement as to the interest conveyed from and after the effective date of the transfer of ownership; provided, however, that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof in writing from the transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations previously incurred by such party hereunder with respect to the interest transferred, including without limitation the obligation of a party to pay all costs attributable to an operation conducted hereunder in which such party has agreed to participate prior to making such assignment, and the lien and security interest granted by Article VII.B. shall continue to burden the interest transferred to secure payment of any such obligations.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the Oil and Gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

E. Waiver of Rights to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severally its undivided interest therein.

F. Preferential Right to Purchase:

~~(Optional. Check if applicable.)~~

~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract Area, it shall promptly give written notice to the other parties, with full information concerning its proposed disposition, which shall include the name and address of the prospective transferee (who must be ready, willing and able to purchase), the purchase price, a legal description sufficient to identify the property, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after the notice is delivered, to purchase for the stated consideration on the same terms and conditions the interest which the other party proposes to sell, and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to transfer title to its interests to its mortgagee in lieu of or pursuant to foreclosure of a mortgage of its interests, or to dispose of its interests by merger, reorganization, consolidation or by sale of all or substantially all of its Oil and Gas assets to any party, or by transfer of its interests to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which such party owns a majority of the stock.~~

ARTICLE IX.

INTERNAL REVENUE CODE ELECTION

If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the parties have not otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle "A," of the Internal Revenue Code of 1986, as amended ("Code"), as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Treasury Regulation §1.761-2. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K," Chapter 1, Subtitle "A," of the Code, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

ARTICLE X.

CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Fifty Thousand and No/100 Dollars (\$ 50,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling settling, or otherwise discharging such claim or suit shall be a joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder. All claims or suits involving title to any interest subject to this Agreement shall be treated as a claim or suit against all parties hereto.

ARTICLE XI.

FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to indemnify or make money payments or furnish security, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The term "force majeure," as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, ~~lightning~~ fire, storm, flood or other act of nature, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable. The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

ARTICLE XII.

NOTICES

All notices authorized or required between the parties by any of the provisions of this agreement, unless otherwise specifically provided, shall be in writing and delivered in person or by United States mail, courier service, telegram, telex, telecopier ^{or email} or any other form of facsimile, postage or charges prepaid, and addressed to such parties at the addresses listed on Exhibit "A." All telephone or oral notices permitted by this agreement shall be confirmed immediately thereafter by written notice. ~~Notice (oral notice will not be considered valid notice unless written confirmation is received within forty-eight (48) hours of such oral notice).~~ The originating notice given under any provision hereof shall be deemed delivered only when received by the party to whom such notice is directed, and the time for such party to deliver any notice in response thereto shall run from the date the originating notice is received. "Receipt" for purposes of this agreement with respect to written notice delivered hereunder shall be actual delivery of the notice to the address of the party to be notified specified in accordance with this agreement, or to the telecopy, facsimile, ~~telex machine~~ ^{or email address} of such party. The second or any responsive notice shall be deemed delivered when deposited in the United States mail or at the office of the courier or telegraph service, or upon transmittal by telex, telecopy, ~~facsimile~~ ^{or email address}, or when personally delivered to the party to be notified, provided, that when response is required within 24 or 48 hours, such response shall be given orally or by telephone, telex, telecopy, ~~email~~ or other facsimile within such period. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties. If a party is not available to receive notice orally or by telephone when a party attempts to deliver a notice required to be delivered within 24 or 48 hours, the notice may be delivered in writing by any other method specified herein and shall be deemed delivered in the same manner provided above for any responsive notice.

ARTICLE XIII.

TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the Oil and Gas Leases and/or Oil and Gas Interests subject hereto for a period of six (6) months after the last Oil and Gas Lease, or extension or renewal thereof, within the Contract Area expires or is terminated, the period of time selected below, provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any Lease or Oil and Gas Interest contributed by any other party beyond the term of this agreement.

~~Option No. 1. So long as any of the Oil and Gas Leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise.~~

~~Option No. 2. In the event the well described in Article VI.A, or any subsequent well drilled under any provision of this agreement, results in the completion of a well as a well capable of production of Oil and/or Gas in paying quantities, this agreement shall continue in force so long as any such well is capable of production, and for an additional period of _____ days thereafter, provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, Reworking, Deepening, Sidetracking, Plugging Back, testing or attempting to complete or re-complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A, or any subsequent well drilled hereunder, results in a dry hole, and no other well is capable of producing Oil and/or Gas from the Contract Area, this agreement shall terminate unless drilling, Deepening, Sidetracking, Completing, Re-completing, Plugging Back or Reworking operations are commenced within _____ days from the date of abandonment of said well. "Abandonment" for such purposes shall mean either (i) a decision by all parties not to conduct any further operations on the well or (ii) the elapse of 180 days from the conduct of any operations on the well, whichever first occurs.~~

The termination of this agreement shall not relieve any party hereto from any expense, liability or other obligation or any remedy therefor which has accrued or attached prior to the date of such termination.

Upon termination of this agreement and the satisfaction of all obligations hereunder, in the event a memorandum of this Operating Agreement has been filed of record, Operator is authorized to file of record in all necessary recording offices a notice of termination, and each party hereto agrees to execute such a notice of termination as to Operator's interest, upon request of Operator, if Operator has satisfied all its financial obligations.

ARTICLE XIV.

COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the applicable laws of the state in which the Contract Area is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations and orders.

B. Governing Law:

This agreement and all matters pertaining hereto, including but not limited to matters of performance, non-performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state of Illaho shall govern.

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any

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rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or

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orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to the operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or Federal Energy Regulatory Commission or predecessor or successor agencies to the extent such interpretation or application was made in good faith and does not constitute gross negligence. Each Non-Operator further agrees to reimburse Operator for such Non-Operator's share of production or any refund, fine, levy or other governmental sanction that Operator may be required to pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

ARTICLE XV. MISCELLANEOUS

A. Execution:

This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. ~~Operator may, however, by written notice to all Non-Operators who have become bound by this agreement as aforesaid, given at any time prior to the actual start date of the Initial Well but in no event later than five days prior to the date specified in Article VII.A for commencement of the Initial Well, terminate this agreement if Operator in its sole discretion determines that there is insufficient participation to justify commencement of drilling operations. In the event of such a termination by Operator, all further obligations of the parties hereunder shall cease as of such termination. In the event any Non-Operator has advanced or prepaid any share of drilling or other costs hereunder, all sums so advanced shall be returned to such Non-Operator without interest. In the event Operator proceeds with drilling operations for the Initial Well without the execution hereof by all persons listed on Exhibit "A" as having a current working interest in such well, Operator shall indemnify Non-Operators with respect to all costs incurred for the Initial Well which would have been charged to such person under this agreement if such person had executed the same and Operator shall receive all revenues which would have been received by such person under this agreement if such person had executed the same.~~

B. Successors and Assigns:

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns, and the terms hereof shall be deemed to run with the Leases or Interests included within the Contract Area.

C. Counterparts:

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

D. Severability:

For the purposes of assuming or rejecting this agreement as an executory contract pursuant to federal bankruptcy laws, this agreement shall not be severable, but rather must be assumed or rejected in its entirety, and the failure of any party to this agreement to comply with all of its financial obligations provided herein shall be a material default.

ARTICLE XVI. OTHER PROVISIONS

This Agreement shall be subject to that certain Exploration Agreement dated the January 1, 2012, between AM Idaho, LLC and Bridge Energy, Inc., et al. covering the Payette Area. If any provision of this Agreement is in conflict with any provision of said Exploration Agreement, the provisions of the Exploration Agreement shall govern and control.

Notwithstanding anything herein to the contrary, if any provision of this Article XVI is in conflict with Articles I through XV of this Operating Agreement or any Exhibit to this Operating Agreement, the provisions of this Article XVI shall govern and control.

A. PRIORITY OF OPERATIONS

1. When any well has been drilled to its authorized depth, if the Consenting Parties to the drilling of such well cannot mutually agree upon the conduct of further operations, the operations proposed to be conducted shall be governed by the following sequence of priority:

- (a) a proposal to do additional logging, coring or testing of the open hole, then
- (b) a proposal to attempt to complete the well in the objective formation, then
- (c) a proposal to plug the well back and to attempt a completion in a formation above or below the objective formation, then
- (d) a proposal to deepen the well, then
- (e) a proposal to sidetrack the well, then
- (f) a proposal to plug and abandon the well.

No party may propose any operation with respect to any well under this Article (f) while there is pending a prior proposal for any operation respecting such well until that proposal is withdrawn or terminates, or until the operation contemplated thereby has been completed or (ii) while there is in progress any operation on such well until such operation has been completed.

2. If at the time the Consenting Parties are considering any of the above proposals, the hole is in such a condition that a prudent Operator would not conduct a proposal(s) for fear of placing the hole in jeopardy or losing the same prior to any attempt to complete the well in the objective formation, then a proposal(s) shall not be given the priority set forth above. If additional logging, coring or testing is conducted, it shall be done at the sole risk, cost and expense of the Parties participating therein, who shall be responsible for any damage to the well bore resulting from such testing, including the re-drilling of the well if necessary. The Non-Consenting Party to such additional evaluation shall not be entitled to logs, information or data resulting from such tests.

B. SUBSEQUENT WELL PROPOSALS

Other than the Initial Well, any party may submit a proposal to drill a well ("Proposed Well") in the Contract Area. Such proposal shall be made in writing to the other party or parties and shall be accompanied by:

- (a) A definition of the exploration objectives, including horizons and depths;
- (b) The surface and bottom hole locations for the well;
- (c) A land plat showing location of leases;
- (d) Other information in support of an Proposed Well proposal;
- (e) The estimated costs for drilling the Well, in the form of a proposed AFE therefor; and

(f) Drilling Provisions.

The receiving parties shall have a period of thirty (30) days after receipt of such Proposal in which to make their participation election in the Proposed Well by returning to the Operator its election and approved AFE. If a Party elects not to participate in the Proposed Well or fails to timely notify Operator of its election within said thirty (30) days of receipt of such Proposal, that party shall, by such election or inaction, be deemed a Non-Consenting Party and shall have forfeited, without recourse, compensation or reimbursement of costs, all of its rights, title and interests in and to the Proposed Well and all Oil & Gas Interests associated with the Proposed Well as provided in Article XVI, 12, below. In the event the initial well is not drilled within the time frames provided under this Operating Agreement, the Well Proposal shall be considered as though it had never been made. Any funds forwarded to the Operator shall be returned within ten (10) business days of the expiration of the ninety (90) day period and any interest forfeited shall be returned or assigned back to the Non-Consenting Party.

No more than four (4) well proposals may be outstanding at any one time, unless it is necessary to sooner commence drilling operations on another well to preserve one or more leases, to satisfy an express off-set well obligation, or farmout.

For the purposes of this Article XVI B, a proposal is no longer considered outstanding when a well has been Completed, abandoned, or drilling operations are not commenced within the time period allowed for proposed operations under this Operating Agreement.

C. ADVANCEMENT OF COSTS1. DRILLING COSTS

Operator shall from time to time call for and receive from Non-Operators, payment in advance of Non-Operators' share of the estimated cost to drill any well to its total depth, to conduct open hole tests, therein, prior to a completion attempt, and to plug and abandon same as a dry hole, which right will be exercised by submission to Non-Operators, of an AFE and invoice for Non-Operators' share thereof. Non-Operators shall, within thirty (30) days following receipt of Operator's Invoice and AFE, deliver to Operator, Non-Operator's share of the Invoice and approved AFE. Failure by any Non-Operator to timely deliver its share of cost and approved AFE shall constitute an election to not participate in the drilling of such well; and in the event such well is the Initial Well or Substitute Well, such Non-Operator shall be deemed to have forfeited, without recourse, all of its right, title and interest in and to the Contract Area, or in the event such well is any well other than the Initial Well or Substitute Well ("Subsequent Well") the terms of Article XVI D shall apply. Proper adjustment shall be made between advances and actual expenses, to the end that Non-Operators will pay only its share of actual costs.

2. OTHER THAN DRILLING COSTS

Operator, at its discretion, may from time to time demand and receive from one or more of the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations proposed under this Agreement. Article 2.1. Operator shall submit to each such party, along with written notice of the proposed operation, an AFE itemizing such estimated expense, together with an invoice for its share thereof. Each party shall pay to Operator its proportionate share of such estimate within the time frame provided for delivery of notification of said Party's election to participate in the proposed operation. Failure by any Party to timely deliver its share of said estimated expense within said time frame shall constitute an election to not participate in such operations, except for in the case of elections under Article VII E.

D. NON-CONSENT TO DRILL WELLS

Notwithstanding anything in this Operating Agreement to the contrary,

Article VII B.2, shall not apply to any Party's election not to join in and pay for the drilling of a well on a Contract Area.

In the event any Party elects not to drill any well, the Non-Consenting Party shall, if such well is completed as an oil and/or gas well, immediately assign to the Consenting Parties, all rights, title and interests in and to the well and wellbore, including, without limitation, all production and revenues related thereto, all equipment and facilities, personal property, rights of ingress and egress, surface access and use, related thereto.

Such assignment shall convey all rights between the surface and the total depth drilled in such well, plus 100.0 feet.

In the event any well is not commenced within 90 days of proposing such well and thereafter drilled to its authorized depth or is timely commenced and thereafter drilled to its authorized depth but is thereafter plugged and abandoned as a dry hole, no assignment by the Non-Consenting Party shall be due.

Article VII B.2, will not apply to any operation which is necessary to perpetuate an expiring Oil and Gas Lease or interest therein or to perpetuate or earn rights in and to a lease pursuant to a farmout or other exploration agreement, including an operation required in the continuous development provision of a lease, farmout or other exploration agreement ("Required Operation"). If any Party elects not to participate in a Required Operation, the Non-Consenting Party will assign to the Consenting Parties that portion of the Contract Area(s) as set forth in Article XVI N.3, below.

Nothing herein shall ever be construed so as to require an assignment of any Non-Consenting Party's interest in a producing well, or any land or lands in the contract area perpetuated thereby.

Any assignment shall not relieve the Non-Consenting Party from any obligation, liability or responsibility therefor incurred.

E. NON-CONSENT TO COMPLETE, REWORK, RECOMPLETE, DEEPENING, SIDETRACKING OR PLUGGING BACK OPERATION

Article VII C.1, Option No. 2 shall apply to the completion of all wells.

The provisions of Article VII B.2, shall apply to the Reworking, ReCompleting, Deepening, Sidetracking and Plugging Back of any well after it has been drilled to its authorized depth.

In the event a Consenting Party to the drilling and Completion of a well elects not to participate in the Reworking, ReCompleting or Plugging Back operation for such well, said party shall be deemed to have relinquished to the Consenting Parties to the Reworking, ReCompleting or Plugging Back operation in said well, who shall own and be entitled to receive all of such Non-Consenting Party's interest in such well, its leasehold operating rights and share of production therefrom, insofar and only insofar as it pertains to the zone or zones which are being Reworked, ReCompleted or to which the well is being Plugged Back.

If pursuant to Article VII B.2, hereto, less than all of the parties elect to participate in a proposed Reworking, Deepening or Plugging Back operation, and if such operation does not result in the production of hydrocarbons in commercial quantities, or result in a completion that ceases to produce in commercial quantities prior to the time at which the consenting parties are fully reimbursed as provided in Article VII B.2, then, notwithstanding anything in this Operating Agreement to the contrary, the party or parties who elect not to participate in such Reworking, Deepening or Plugging Back operation shall nevertheless be responsible for their proportionate share (as set forth in Exhibit "A") of the cost to plug and abandon such well and salvage the equipment therefrom, except for the additional plugging and abandonment or salvage costs that are caused by the Reworking, Deepening or Plugging Back operation in which the party or parties did not participate and any exceptional expenses attributable to well control incidents resulting therefrom; the consenting parties shall be solely responsible for such additional costs.

F. DEFAULT

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1. If any Party, including the Operator, fails to pay its share of any cost which it is obligated to pay under any provision of this Agreement ("Defaulting Party"), and if such default continues for a period of fifteen (15) days following delivery by any of the other Parties ("Non-Defaulting Parties") of written notice of such default to the Defaulting Party, then at any time after the expiration of such notice period, the Non-Defaulting Parties shall be entitled to the following remedies:

(a) The Non-Defaulting Parties may suspend by written notice, any or all of the rights of the Defaulting Party under this Agreement, without prejudice to the right of the Non-Defaulting Parties to continue to enforce the obligations of the Defaulting Party under this Agreement. The rights of a Defaulting Party that may be suspended hereunder at the election of the Non-Defaulting Parties shall include, without limitation, the right to elect to participate in any subsequent operation regarding the well to which the default relates, or any subsequent operation proposed under this Agreement; and

(b) The Non-Defaulting Parties may take any action to which it may be entitled or pursue any remedy to collect the amounts in default, together with all damages suffered by the Non-Defaulting Parties as a result of the default, plus interest accruing on the amounts recovered from the date of default until the date of collection at the rate specified in the Accounting Procedure together with reasonable attorney's fees and court costs related thereto; or

(c) The Non-Defaulting Parties may deliver a written notice to the Defaulting Party at any time after the default occurs with the following effect:

(i) If the billing is for the completion or recompletion of a well, the Defaulting Party will be deemed conclusively to have elected not to participate in the subject operation under Paragraph VI B 2, above from the time of the billing, which led to the default and to be a Non-Consenting Party with respect thereto, notwithstanding any election to participate theretofore made.

(ii) Until the delivery of such notice to the Defaulting Party, the Defaulting Party shall have the right to cure its default by paying the unpaid billings plus interest at the rate set forth in the Accounting Procedure. Any interest relinquished pursuant to this Paragraph shall be owned by the Non-Defaulting Parties pursuant to Paragraph VI B 2, above, and the Non-Defaulting Parties shall be liable to contribute its share of the defaulted amount.

(iii) The Operator on behalf of the Non-Defaulting Parties may reduce any and all revenues, if any, attributed to the Defaulting Party's interest by the amount in default plus any interest charges accruing on such defaulting amount as provided in the Accounting Procedure.

2. Notwithstanding the other provisions of this Paragraph, if a Party fails to pay part or all of its share of costs hereunder because of a legitimate disagreement as to the appropriateness of part or all of the billing(s) in question, and if such Party makes such disagreement and the grounds therefore known to the other Party in writing prior to the due date of such billing and timely renders payment of all undisputed amounts, then such Party shall not be subject to Section 1, (a) or 1, (c) of this Paragraph.

3. Notwithstanding anything in this Operating Agreement to the contrary, in the event a Defaulting Party fails to pay its share of costs which it is obligated to pay under any provision of this Agreement within fifteen (15) days after Defaulting Party's receipt of notice of such failure to pay, the Operator, at its sole discretion, may withhold from a Non-Operator's production revenue related to any well Operator operates pursuant to the Agreement all accrued unpaid lease operating expenses, past due balances, and accrued unpaid expenses allocated to any well Operator operates on behalf of a Non-Operator pursuant to the Agreement.

G. OPERATIONS ON PRODUCING WELLS

1. No well producing in paying quantities shall be reworked, recompleted or deepened, or plugged and abandoned without the consent of all Parties, except that a well producing in paying quantities may be "fraced" or otherwise stimulated for the purposes of enhancing existing production with the consent of the parties owning or representing at least 60.0% Percentage Interest in the well.

2. The provisions of Article VI B, will apply to a proposal by any Party desiring that one or more producing zones within a well be "fraced" or otherwise stimulated for purposes of enhancing existing production. Except as set forth in Paragraph 1, above, any such proposed stimulation of a producing well may be performed if so approved by the Parties owning the working interest in such well or zone. The Party electing not to participate in the stimulation effort will be deemed a Non-Consenting Party and, as to such stimulation, will be subject to the penalties otherwise provided in Article VI B 2, (a) and (b). The Consenting Parties in the stimulation effort will not be liable in damages to the Non-Consenting Party, if, as a consequence of the attempted stimulation, the well or zone is damaged, lost or destroyed.

H. PIPELINE AND/OR GATHERING LINE CONSTRUCTION

(a) For each well within the Contract Area, each party shall pay its proportionate share of all pipeline, gathering and related facilities costs constructed within the Contract Area.

(b) If any Party elects, in an operation not covered by Article VI, to construct, operate or purchase, or join in the construction, operation or purchase of a pipeline and/or gathering line to transport production from, but not within, the Contract Area, then such Party shall notify the other Parties furnishing all pertinent costs and information. The Parties receiving such notice shall have the right to participate in the construction, operation and ownership of such pipeline and/or gathering line by assuming their proportionate shares of the obligations and paying the costs attributable thereto.

I. COST ALLOCATION

Notwithstanding anything to the contrary contained in the Operating Agreement or the Accounting Procedure attached hereto as Exhibit "C", the following items shall not be considered within the category of administrative overhead:

1. All cost and expenses for outside attorneys and oil lease brokers incurred in the acquisition of Oil and Gas Leases and examination of and curing of titles.

2. All outside fees for legal, geological, geophysical, engineering, drafting and reproductive services and other costs and expenses as incurred in connection with the preparation and presentation of evidence and exhibits and handling of applications to and hearings before any governmental agencies or regulatory bodies.

J. DELAY RENTALS, OPTION PAYMENTS AND LEASE EXTENSIONS

Operator shall submit to the parties reports of the monthly delay rental payments that will be due and payable on leases subject hereto at least 60 days in advance of such payments being due, together with the due dates for such payments. Operator's recommendations for the payment or non-payment thereof, and a general description of the lands covered by same. A party may elect to terminate its interest in a lease or leases by providing written notice to Operator and all other parties hereto then owning an interest in said lease or leases to the effect that the notifying party will not participate in the next ensuing delay rental payment with respect to such lease or leases at least 30 days in advance of such payments being due. Failure to notify Operator and such other parties of a party's election at least 30 days in advance of the rental payment due date shall be deemed an election to participate in payment of rentals. If at any time a party elects not to participate in payment of a delay rental, then the parties electing to participate in the payment shall have the right to assume their respective proportionate shares of the interest in the affected lease of the party electing not to participate by providing written notice to the other participating parties and Operator within 10 days after receipt of the notice of a party's election not to participate. Failure to provide such notice shall be deemed an election not to assume an interest. In the event that after such elections, an interest in the affected lease remains that has not been assumed, Operator within 48 hours shall notify the participating parties, who may elect to assume their respective proportionate shares of such remaining interest by providing written notice within 48 hours after receipt of notice of the interest that is available. Failure to provide such notice shall be deemed an election not to assume an additional interest. If, after all such elections, an interest remains that has not been assumed by a party,

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then, at Operator's sole discretion, the Operator may elect either to assume the remaining interest and make the delay rental payment or elect not to make the rental payment and allow the affected lease or leases to lapse and shall notify all of the parties.

A party electing to terminate its interest in a lease or leases shall assign its interest therein to the participating parties free of any overriding royalty interests, net profits interests or other burdens or encumbrances other than the lessor's royalties and any burdens listed on Exhibit "A" hereof. Any such lease or leases shall be removed from the terms of this Operating Agreement but shall be subject to the terms of an identical operating agreement between the participating parties with only the interests of the parties changed on Exhibit "A".

N. GAS MARKETING BY OPERATOR AND OPERATOR AS DISBURSING AGENT FOR NON-OPERATOR

1. Gas Marketing by Operator

If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of Gas produced from the Contract Area, Operator shall have the right, but not the obligation, to purchase such Gas or sell it to others at any time and from time to time, for the account of the non-taking party, at the same price obtained for Operator's share of Gas production under an arms length, third party, purchase or sales contract. Any such purchase or sale by Operator may be terminated by Operator with a thirty (30) day prior written notice to the owner of such Gas production. The owner of such Gas production shall, with a thirty (30) day prior written notice to Operator, have the right at any time to exercise its right to take in kind or separately dispose of its share of Gas production, provided, however, that such Gas production is not committed under a gas sales, transportation or marketing contract. Any purchase or sale by Operator of any party's share of Gas under a gas sales, transportation or marketing contract shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under similar circumstances, but in no event for a period in excess of one (1) year.

2. Operator as Disbursing Agent

Subject to the right of Non-Operator to take in kind its share of production from the Contract Area(s), Non-Operator designates Operator as the agent of Non-Operator to receive and disburse the proceeds derived from the sale of oil and gas produced from the Contract Area(s), including, but not limited to, disbursements to Non-Operators, royalty owners, and payment of severance and production taxes. Subject to provisions of the lien, security and default provisions of this Operating Agreement, Operator shall remit to Non-Operators their proportionate share of such proceeds within thirty (30) days after the receipt by Operator of such proceeds, less such Non-Operators share of all severance and production taxes. The designation of the Operator as the agent of any such Non-Operator to receive and disburse the proceeds derived from the sale of oil and gas produced from the Contract area shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under similar circumstances, but in no event for a period in excess of one (1) year.

3. AFE/COST OVERRUNS

Notwithstanding anything herein to the contrary, Operator shall not expend for any drilling, Completion, Reworking, Sidetracking, Deepening, Plugging Back or Re-completing operation an amount in excess of 115% of the amount authorized for the total operation by virtue of the original or initial AFE without first submitting a Supplemental AFE(s) to the Non-Operator(s) for approval. Any Non-Operator receiving such a Supplemental AFE(s) shall have a period of three (3) days which to either approve or reject the additional expenditure (however, if a rig is on location, every such Non-Operator shall make its best efforts to respond within 24 hours). Failure to respond shall constitute approval. In the event of non-approval, all subsequent operations conducted pursuant to such Supplemental AFE(s) shall be subject to the provisions of Article VI B 2. Operations By Less Than All Parties, provided, however, that if a Non-Operator rejects the additional expenditure and the operation being conducted is a Required Operation, said Non-Operator shall assign and forfeit to the parties continuing with the operation all of its interest in the leases or portions thereof and to the formations and depths covered thereby which would be lost or not earned if such operation is not continued. This paragraph shall not apply to expenditures by the Operator which are required to deal with explosion, fire, flood or other sudden emergency, whether of the same or different nature, or operations required to maintain the hole in a stable condition.

M. INFORMATION DISTRIBUTION LIST/GEOLOGICAL WELL REQUIREMENTS

Attached hereto as Exhibit "G", entitled "Information Distribution List/Geological Well Requirements," is a summary of the notice and data requirements which Operator hereby agrees to observe and perform with respect to each Non-Operator.

N. REQUIRED OPERATIONS

1. If a proposal is made for the drilling, Deepening, Reworking, Plugging Back, Sidetracking or Re-completing of a well or wells or for any other operation proposed or required within six months of the expiration of any right and/or interest subject to this Operating Agreement in order to (1) continue a lease or leases in force and effect, or (2) maintain a unitized area or any portion thereof in force and effect, or (3) earn an interest in and to oil and/or gas and other minerals which may be owned by any third party or preserve any rights to such interest which, failing such operation, would revert to a third party, or (4) comply with an order issued by a regulatory body having jurisdiction over the premises, failing which certain rights would terminate within such period, any such operation shall be a "Required Operation".

2. Should fewer than all the parties hereto elect to participate and pay their proportionate part of the costs to be incurred in a Required Operation, any party or parties desiring to participate shall have the right to do so in the manner provided elsewhere herein, at their sole cost, risk and expense.

3. Promptly following the conclusion of a Required Operation, each party not participating in said Required Operation shall deliver to the party or parties participating in said Required Operation an assignment of all of the right, title and interest of said non-participating party in that portion of the leases and/or other rights and interest which are maintained, perpetuated or earned as a result of said Required Operation. The right, title and interest assigned and conveyed shall be shared by the participating parties in the proportion that the interest of each bears to the total interest of all the participating parties. Such assignment shall be executed and delivered within thirty (30) days of the conclusion of such Required Operation by each party not electing to participate and shall be in a form acceptable to the participating party or parties, free and clear of any overriding royalty interest, production payments, mortgages, liens or other encumbrances placed thereupon or arising out of the assigning party's ownership and operations subsequent to the date of this Operating Agreement, but otherwise without warranty of title, either express or implied. The leases, rights and interests in which an interest is assigned pursuant to the terms hereof shall no longer be subject to this Operating Agreement, but said leases, rights and interests shall be solely subject to a separate operating agreement which accurately reflects the interests of the party or parties in the Required Operation, and which is otherwise identical to this Operating Agreement. The written notice and/or AFEs covering Required Operations to be sent to the parties for their election to participate therein as provided in Article VI B 1, will be clearly marked or identified as a proposal for a Required Operation.

O. ASSIGNMENTS

1. Any Assignments made as a result of forfeiture of interest, or as a result of Article VI and/or Article XVI D, E and F shall be free of any overriding royalty interests, net profit interests, burdens on production or any other burdens or encumbrances.

2. Subject to the provisions of Article VIII D, any party may sell or assign all or any portion of its interest in the Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production within the Contract Area covered by this agreement to one or more third parties without the consent of any other party hereto, provided that such sale or assignment shall be made subject to the provisions of this Operating Agreement and the Participation Agreement and the third party assignee or assignees agree to assume all future obligations hereunder. Such sale or assignment shall not be binding upon the other parties to this agreement until Operator is furnished with a copy of the legal instrument evidencing such conveyance. Once a party assigns an interest in the Contract Area to one or more third parties and the Operator has been furnished with notice of such assignment as provided for herein, the assigning party shall have no further liability or

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obligations under this agreement with respect to the interest so assigned except for those outstanding liabilities or obligations due and owing to another party to this agreement for time periods prior to the effective date of the assignment.

3. In addition, the following language shall be added to any assignment or conveyance from any parties:

"This assignment is made subject to, and Assignee agrees to assume its proportionate share of all obligations and liabilities arising under the terms of that certain Operating Agreement dated _____, naming _____ as Operator. Assignee expressly assumes responsibility for, and agrees to pay, perform, fulfill and discharge its proportionate share of all claims, costs, expenses, liabilities and obligations accruing or relating to the ownership, operation, maintenance, exploration, production, or development of the Leases, wells and equipment assigned herein, as to all periods on or after the effective date of this assignment, including, without limitation, all environmental claims. Without limiting the generality of any of the foregoing, Assignee accepts responsibility for and agrees to pay its proportionate share of all costs and expenses associated with plugging and abandonment of the wells assigned herein, together with surface restoration required under applicable law, the Leases or any other contracts assigned hereunder (the obligations and liabilities described herein are referred to as the Assumed Obligations).

ASSIGNEE SHALL DEFEND, INDEMNIFY, RELEASE AND HOLD HARMLESS ASSIGNOR, ITS OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS (ASSIGNOR INDEMNIFIED PARTIES) AGAINST ALL LOSSES, DAMAGES, CLAIMS, DEMANDS, SUITS, COSTS, EXPENSES, LIABILITIES AND SANCTIONS OF EVERY KIND AND CHARACTER, INCLUDING WITHOUT LIMITATION REASONABLE ATTORNEYS' FEES, COURT COSTS AND COSTS OF INVESTIGATION, WHICH ARISING OUT OF OR IN ANY WAY CONNECTED WITH THE ASSUMED OBLIGATIONS DESCRIBED HEREIN."

P. RESERVE ACCOUNT FOR PLUGGING OPERATIONS

In order to have sufficient funds on hand to meet plugging obligations, the Operator may charge the joint account, over the life of any well(s) on the Contract Area, for estimated costs to plug and abandon said wells (including the costs to cleanup the location and restore the surface area of lease used in oil and gas operations) (referred to herein as "Amortized P&A Charges"). These Amortized P&A Charges may not exceed twenty thousand dollars (\$20,000.00) per well. The intent of this covenant is to allow Operator, in the latter stages of the economic life of a well and/or lease, to have available funds on account to conduct P&A operations in accordance with actual Railroad Commission for environmental agency regulations and lease requirements. Each party shall pay its proportionate share of the costs of plugging and abandonment above the Amortized P&A Charges.

Q. ADDITIONAL SECURITY PROVISIONS

1. SECURITY INTEREST

The lien and security interest granted by each Non-Operators and by Operator to the Non-Operator under Article VII B shall extend not only to such Party's rights, title and interests in the Contract Area(s) (which for greater certainty shall include all of each Party's leasehold interest and leasehold estate in the Contract Area(s)), the oil and/or gas when extracted and equipment (as mentioned in said Article) but also to all accounts, contract rights, extracted oil and gas and said equipment or which are otherwise owned or held by any such party in the Contract Area(s). Further, the lien and security interest of said Party shall extend to all proceeds and products of all of the property and collateral described in this paragraph and in Article VII B as being subject to said lien and security interest.

2. LIEN ON UNEXTRACTED HYDROCARBONS

In addition to the liens and security interests as provided in Article VII B, each party to this Agreement, to secure payment of its share of expenses incurred under this Operating Agreement, grants to the other party a lien on all of its right, title and interest now owned or hereafter acquired in the Contract Area including, but not limited to, the oil and gas leases, mineral estates and other mineral interests subject to this Operator Agreement and any properties now or hereafter pooled or unitized with any of the properties affected by such mineral interests; and all unsevered and unextracted oil, gas and other hydrocarbons that may be produced, obtained or secured from the lands covered and affected by such mineral interests such lien shall be perfected by recording in the Real Property Records of the county in which the acreage within the Contract Area exists. Memorandum in the same form as the Exhibit "H" attached hereto.

3. CONTRACTUAL RIGHT OF OFFSET

a. In addition to the rights and remedies afforded to Operator pursuant to the terms of Article VII D, or at law or in equity, it is understood and agreed that each defaulting party grants to the Operator a contractual right of offset in and to all money, production, proceeds from the sale of production and property of every kind or character of such defaulting party, now or at any time hereunder coming within Operator's custody or control, wherever located whether or not subject to the terms of this Agreement or any other agreement between Operator and defaulting party. Operator may, at its election, at any time and from time to time, reduce (or eliminate, as the case may be) any debt owing to it by any defaulting party by applying such defaulting party's money, proceeds or property in the custody or control of Operator to the balance owed on such debt and giving such defaulting party appropriate credit therefor. Any such amounts so applied shall first be applied to any past due interest, if any, then to any costs, including attorney's fees, incurred by Operator in the collection of the proceeds or property, and then to the underlying debt. It is agreed and understood that Operator's contractual right of offset shall extend to and include all proceeds of production attributable to the defaulting party from any wells in which the defaulting party owns an interest.

b. The lien and security interest granted by each Non-Operators and by Operator to the Non-Operator under Article VII B shall extend not only to such party's rights, title and interests in the Contract Area(s) (which for greater certainty shall include all of each Party's leasehold interest and leasehold estate in the Contract Area(s)), the oil and/or gas when extracted and equipment (as mentioned in said Article) but also to all accounts, contract rights, extracted oil and gas and said equipment or which are otherwise owned or held by any such party in the Contract Area(s). Further, the lien and security interest of said Party shall extend to all proceeds and products of all of the property and collateral described in this paragraph and in Article VII B as being subject to said lien and security interest.

4. RIGHT OF EXECUTORY FORECLOSURE

In addition to all rights and remedies afforded Operator under Article VII B, in the event any debt owing by the defaulting party to Operator shall exceed any money, proceeds of sale of production, or property of such defaulting party as provided in the contractual right of offset as provided in Paragraph Q.3 above, the Operator may elect to proceed and foreclose the lien of Operator against the interest of any defaulting party in accordance with the laws of the State of Idaho. Non-Operator hereby delegates Operator as its agent and attorney in fact to execute any and all documents reasonably necessary to carry out an executory foreclosure pursuant to the laws of the State of Idaho.

R. EQUAL OPPORTUNITY EMPLOYER

All of the Parties are Equal Opportunity Employers. To the extent that this Agreement may be subject to Executive Order 11246, as amended, the equal opportunity provision (41 CFR 60-1) is incorporated herein by reference. To the extent required by applicable Laws and regulations, this Agreement also includes and is subject to the affirmative actions clause concerning disabled veterans of the Vietnam era (41 CFR 60-250) and the affirmative action clauses concerning employment of the handicapped (41 CFR 60-741), which clauses are incorporated herein by reference.

S. AUDIT

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Notwithstanding anything to the contrary contained in the Accounting Procedure, upon receipt of any audit report conducted on the Joint Account by Non-Operator, Operator shall respond in writing to such audit report as soon as reasonably possible, but not greater than sixty (60) days of such receipt.

T. WELL CONTROL INSURANCE

The interest of each party hereto shall be included in Operator's Control of Well Insurance policy and a proportionate part of the cost of such insurance shall be borne by the respective parties unless Operator is notified otherwise in writing and provided a Certificate of Insurance in compliance with Exhibit "D", which is attached hereto, prior to commencement of operations or prior to any operation to be performed on a well in accordance with attached Exhibit "D".

U. TRANSITION OF OPERATOR

Upon the selection of the successor operator, the Operator who has been removed or has resigned shall promptly deliver to the successor operator all original records relating to operations on the contract area, including current accounting information with regard to the status of the joint account, information concerning all invoices not yet paid by the Operator who has resigned or been removed, all logs, maps and all other information concerning operations. Duplicating expenses required by virtue of the change of operator shall be charged to the joint account.

V. HEADINGS

The Article and Paragraph headings used in this Agreement are inserted for convenience only and shall be disregarded in interpreting or construing this Agreement.

W. ADDITIONAL DEFINITIONS

"Horizontal Well" shall mean a well drilled at an angle to the vertical wellbore, so the well runs parallel to the target formation or zone.

X. BINDING

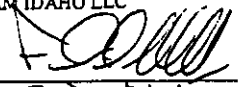
This Agreement will be binding and will inure to the benefit of the Parties, their respective heirs, representatives, successors and assigns.

Y. COUNTERPARTS

This Agreement may be executed simultaneously in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument. A facsimile, telegraphic or any other form of authenticated electronic signature shall be effective in all respects as an original signature. Failure of any party to execute this Operating Agreement shall not render this Operating Agreement ineffective as to and between the other parties executing this Operating Agreement.

OPERATOR

AM IDAHO LLC

By: 
Its: VP-Land

NON-OPERATORS

BRIDGE ENERGY, INC.

By:
Its:

SETANTA ENERGY LLC

By:
Its:

CONIG 818 INVESTMENTS, LLC

By:
Its:

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7 Insurance in compliance with Exhibit "D", which is attached hereto, prior to commencement of operations or prior to any operation to be
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31 Operating Agreement ineffective as to and between the other parties executing that executing this Operating Agreement.

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34 OPERATOR

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36 AM IDAHO LLC

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40 By:
41 Its:

42
43 NON-OPERATORS

44
45 BRIDGE ENERGY, INC.

46
47 *N. Clayton*
48 By: *NICHOLAS J. CLAYTON*
49 Its: *CHAIRMAN & CEO*

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52 SETANTA ENERGY LLC

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55
56 By:
57 Its:

58
59
60 CONIG 818 INVESTMENTS, LLC

61
62
63
64 By:
65 Its:

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

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OPERATOR

AM IDAHO LLC

By:

Its:

NON-OPERATORS

BRIDGE ENERGY, INC.

By:

Its:

SETANTA ENERGY LLC

By:

Its:

KEITH O'Donnell
Director of Sisyphus Holding Corporation,
member of Setanta Energy LLC
CONIG 818 INVESTMENTS, LLC

By:

Its:

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

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OPERATOR

AM IDAHO LLC

By:
Its:

NON-OPERATORS

BRIDGE ENERGY, INC.

By:
Its:

SETANTA ENERGY LLC

By:
Its:

CONIG 818 INVESTMENTS, LLC

By: *Phil F. Snow*
Its: *President*

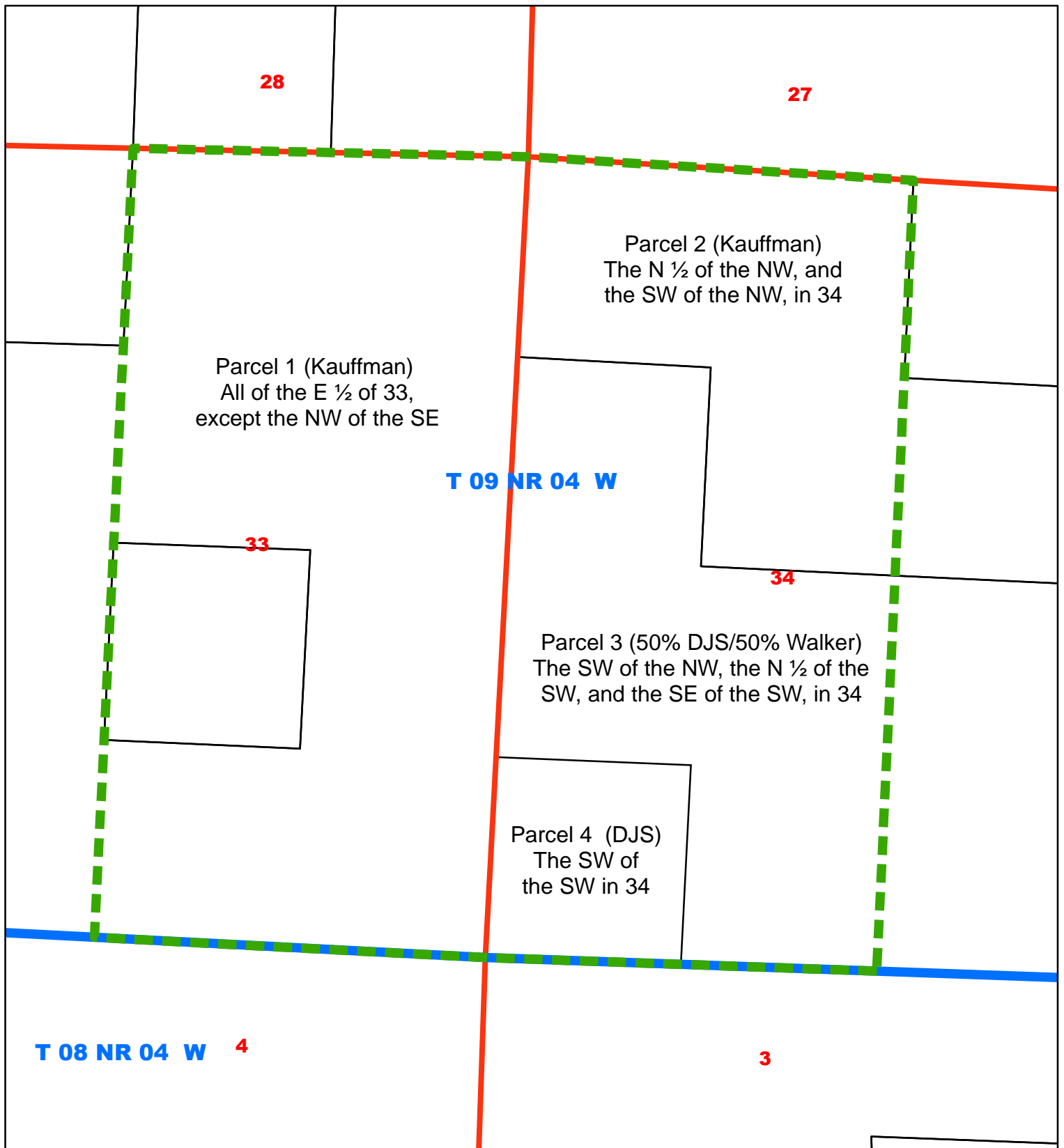
Exhibit D

Authorization for Expenditure

AUTHORITY FOR EXPENDITURES				
OPERATOR	ALTA MESA SERVICES, LP		PROSPECT / WELL NAME	AFE NUMBER
			IdahoKauffman 1-34	114DC2101
LOCATION	Lat 44° 04' 45.35989" Long. 116° 48' 39.01178" (NAD 83)		COUNTY	REVISION #
			PayetteIdaho	0
FIELD NAME	Willow		WELL COST ESTIMATE DATE	
			7/3/14	
TARGET FORMATIONS	Willow Sand		PROPOSED DEPTH	
			5,800 ft MD	
		BCP - INT	ACP - INT	TOTAL
	INTANGIBLE WELL COSTS:	8200 Series	8300 Series	
100	PERMITTING / REGULATORY	\$2,500		\$2,500
101	SURVEYS & STUDIES	\$10,000		\$10,000
102	RIGHT OF WAY, DAMAGES, & LEGAL	\$10,000		\$10,000
103	PHYSICAL LOCATION PREPARATION	\$60,000		\$60,000
104	LOCATION CLEAN-UP & RESTORATION		\$0	\$0
107	LEGAL / UNITIZATION	\$50,000		\$50,000
110	MOBILIZATION / DEMOBILIZATION (Move In - Move Out)	\$90,000		\$90,000
120	RIG TURNKEY COSTS			\$0
122	RIG DAY WORK COSTS	\$180,000	\$40,000	\$220,000
123	COMPLETION / WORKOVER RIG		\$0	\$0
124	COILED TUBING UNIT		\$0	\$0
125	WIRELINE UNIT		\$0	\$0
130	FUEL & LUBRICANTS	\$18,900	\$4,200	\$23,100
131	WATER	\$11,155	\$0	\$11,155
140	BITS	\$45,000		\$45,000
141	REAMERS, STABILIZERS, COLLARS	\$1,500		\$1,500
142	ROTARY TOOL RENTAL & ACCESSORIES	\$3,300	\$0	\$3,300
144	FISHING TOOLS	\$0	\$0	\$0
145	DIRECTIONAL TOOLS	\$15,200		\$15,200
150	WELL CONTROL EQUIP RENTAL	\$14,120	\$37,200	\$51,320
151	MUD MONITORING & EQUIPMENT RENTAL	\$11,325	\$850	\$12,175
152	MUD LOGGING	\$4,800		\$4,800
153	SURFACE EQUIPMENT RENTAL	\$15,190	\$9,580	\$24,770
160	MUD & CHEMICALS	\$177,100	\$21,200	\$198,300
161	CUTTING DISPOSAL / BARGE CLEAN-UP	\$25,000	\$15,000	\$40,000
170	TUBULAR INSPECTION & TESTING	\$0	\$3,000	\$3,000
171	CASING CREWS	\$16,000	\$22,500	\$38,500
172	CEMENTING & SERVICES	\$60,000	\$75,000	\$135,000
173	LOGGING & CORING	\$70,000	\$12,000	\$82,000
174	PERFORATING		\$16,000	\$16,000
175	ACID, FRAC, & SAND CONTROL		\$0	\$0
176	WELL TESTING		\$20,000	\$20,000
178	COMMUNICATIONS	\$2,940	\$1,070	\$4,010
179	OTHER SERVICES	\$5,000	\$1,000	\$6,000
180	LAND TRANSPROTATION	\$31,500	\$21,000	\$52,500
181	MARINE TRANSPORTATION	\$0	\$0	\$0
190	CONTRACT LABOR	\$4,350	\$20,000	\$24,350
192	SUPERVISION - GEOLOGICAL & ENGINEERING	\$35,100	\$19,800	\$54,900
193	TRAILER & CAMP EXPENSES	\$9,135	\$2,030	\$11,165
194	DOCK CHARGES	\$0	\$0	\$0
200	DRILLING OVERHEAD (COPAS)	\$4,500	\$2,500	\$7,000
210	INSURANCE	\$3,480		\$3,480
290	CONTINGENCIES	\$148,289	\$51,590	\$199,879
	(1) TOTAL INTANGIBLE WELL COSTS	\$1,135,384	\$395,520	\$1,530,904
	TANGIBLE WELL COSTS:	BCP - TAN	ACP - TAN	
		8250 Series	8350 Series	
101	PLATFORM / WELL PROTECTOR - (Wood pilings, metal supports, etc...)	\$0		\$0
170	CONDUCTOR PIPE	\$15,500		\$15,500
200	SURFACE CASING	\$25,361		\$25,361
250	INTERMEDIATE CASING	\$0		\$0
270	LINER	\$0		\$0
300	CASINGHEAD - (Everything up to the tubinghead)	\$4,000		\$4,000
350	CASING EQUIPMENT - (Float equipment, centralizers, liner hangers, etc...)	\$5,000	\$5,000	\$10,000
400	DOWNHOLE EQUIPMENT - (Packers, Anchors, Bridge Plugs, Screens, etc...)	\$0	\$15,000	\$15,000
900	TANGIBLE CONTINGENCIES	\$4,986	\$15,007	\$19,994
100	PRODUCTION CASING		\$55,274	\$55,274
110	PRODUCTION LINER		\$0	\$0
117	TIE-BACK ASSEMBLIES - (Casing cost, Seal Assem, etc...)		\$0	\$0
120	TUBING		\$34,800	\$34,800
200	WELLHEAD - (Tubinghead, Hangers, Production Tree, etc...)		\$30,000	\$30,000
300	COMPLETION EQUIPMENT		\$10,000	\$10,000
	(2) TOTAL TANGIBLE WELL COSTS	\$54,847	\$165,081	\$219,929
	(1) + (2) TOTAL D&C COSTS	\$1,190,231	\$560,601	\$1,750,832
	PIPELINE & FACILITY WELL COSTS:		ACP - Fac	
			8400 Series	
010	FOUNDATION		\$0	\$0
100	TANK BATTERY		\$30,000	\$30,000
107	FENCES		\$40,000	\$40,000
120	MANIFOLD & SEPARATORS		\$0	\$0
130	DEHYDRATOR		\$60,000	\$60,000
131	PIPING		\$150,000	\$150,000
140	GENERATOR & ELECTRICITY SYSTEM		\$0	\$0
150	METER RUN		\$30,000	\$30,000
165	INSTRUMENTATION		\$150,000	\$150,000
180	VALVES & FITTINGS		\$0	\$0
190	COMPRESSOR		\$0	\$0
191	PUMP UNITS		\$0	\$0
192	SALT WATER DISPOSAL PUMP		\$0	\$0
193	SUCKER RODS		\$0	\$0
194	EQUIPMENT		\$65,000	\$65,000
195	INSTALLATION LABOR		\$0	\$0
196	OTHER FACILITIES COST		\$0	\$0
200	COMPANY LABOR & EXPENSE		\$0	\$0
210	CONTRACT SUPERVISION		\$0	\$0
280	MAJOR CONSTRUCTION OVERHEAD		\$0	\$0
290	BUDGET CONTINGENCIES		\$78,750	\$78,750
	Facility Total =		\$603,750	\$603,750
			ACP - PL	
			8450 Series	
100	PIPELINE SURVEYS		\$0	\$0
101	RIGHTS OF WAY		\$0	\$0
103	DAMAGES		\$0	\$0
110	LINE PIPE		\$0	\$0
111	COATING & CATHODIC PROTECTION		\$0	\$0
120	VALVES & FITTINGS		\$0	\$0
130	METERING & PIPELINE TAP		\$0	\$0
140	INSTALLATION COSTS		\$0	\$0
190	OTHER PIPELINE COSTS		\$0	\$0
200	COMPANY LABOR & EXPENSE		\$0	\$0
210	CONTRACT SUPERVISION		\$0	\$0
290	BUDGET CONTINCENCIES		\$0	\$0
	Pipeline Total =		\$0	\$0

Exhibit E

Proposed Unit Map



Well Unit in 33 & 34 T9N R4W

07/09/14

Legend

- Proposed Well Unit
- Township and Range Lines
- Section Lines



1 inch equals 900 feet

Exhibit F

Proof of Publication (to be submitted at hearing)

Exhibit G

**Affidavit of Notice to Interested Parties (executed copy to be
submitted at hearing)**

**BEFORE THE IDAHO OIL & GAS CONSERVATION COMMISSION
AFFIDAVIT OF NOTICE TO
INTERESTED PARTIES**

STATE OF IDAHO)
)
COUNTY OF ADA)

KNOW ALL MEN BY THESE PRESENTS:

COMES NOW AMY HARDEE, Affiant herein, who after being by me duly sworn, states on oath as follows, to-wit:

1. I, **AMY HARDEE**, am the assistant to John F. Peiserich, who has been retained to represent Alta Mesa Services, LLC, (Applicant) before the Idaho Oil & Gas Conservation Commission at the August 5, 2014, hearing in Boise, Idaho, to be heard in connection with the following matter:

RE: Application of Alta Mesa Services, LP for integration of all unleased mineral interests and for authority to produce the proposed well and to share the costs of such well and the hydrocarbons produced therefrom between the working interest owners and royalty owners in the unit described as East Half of Section 33 and the West Half of Section 34, both in Township 9 North, Range 4 West, Boise Meridian, Payette County, Idaho; Proposed Kauffman #1-34

2. I hereby certify that a true and correct copy of the Notice attached hereto has been placed in the United States Mail, postage prepaid, on the ____ day of July, 2014, addressed to each of the parties named on the LIST OF INTERESTED PARTIES attached to the referenced Application as Exhibit A.

3. This Affidavit is made and executed based upon my own personal knowledge.

FURTHER Affiant sayeth not.

AMY HARDEE

SUBSCRIBED AND SWORN to before me, a Notary Public, on this ____ day of August, 2014.

Notary Public

My Commission Expires:
